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Trade Services Operations of Banks in Bangladesh

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Trade Services Operations of Banks in Bangladesh

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Trade Services Operations of Banks in Bangladesh

1. Introduction

1.1 Background

Post Covid-19 recovery efforts failed to bring expected results with the global political instability, market uncertainty, and supply chain disruption. The economic and trade slump continued in 2022 and changing forced scale-down trade projections by the economists of international financial institutions and inter-governmental organizations. Trade and economic growth even worsen in 2023, and the global economy is expected to come up with moderate growth in the year 2024. According to the WTO projection, trade growth would move up to 3.3 percent for the year 2024 (WTO, 2023).

Trade services by banks i.e. trade payment, trade financing, and some other associated services to the traders are directly associated with the changing trends of cross-border trade. Global policy changes in such a complex scenario have notable implications for trade financing activities and the associated risks. Both national-level policymakers are responsible for overseeing macroeconomic growth and development, and financial sector regulators are struggling to undertake the right kind of policy approach targeting the current intricacies and complications. Trade service or trade finance banks Trade service-providing banks are confronted with fresher challenges, malpractices, trade-finance gap, and compliance requirements to accommodate the unusual scenario.

Trade services or trade financing is one of the key three major fuctional areas (including general banking and credit operations) of the commercial banks of Bangladesh that involves relatively greater risks, compliance requirments, and higher income opportunities. As the authorised dealers (ADs), trade service-providing banks in Bangladesh undertake extensive responsibilities in legal enforcement and commercial risk minimization in trade facilitation. The ongoing global supply-chain disruption and economic and trade contractions have notable implications for the tarde and tarde finance activities of the country. In the changing situation, commercial banks of the country have been amongst the key stakeholders to ensure higher compliance requirements, adopt modern technologies, and handle growing financial crimes (especially Tarde Based Money Laundering) in the process of offering changing needs of trade services. Seemingly, trade finance banks are increasingly confronting credit risk and widening trade finance gap in the mounting difficulties and challenges. Foreign exchange risk have created huge trade and tarde finance challnges in recent time. In connection with trade finance gap, small enterprises or traders are the sufferers who failed to draw due attention of the trade finance banks, policymakers and other stakeholders till date.

This study is an effort to put forward processed information on the trends, trade finance processes, and operations of the trade services departments of banks with the ultimate goal of improving service quality and effectiveness of trade services by banks of the country.

1.2 Objectives and Methodological Issues

Broadly, the study targets to review the overall activities and operations of the trade services by banks for the year 2023 and examines the changes that have taken place at the operational level of trade finance. More specifically, the key objectives of the review are ***one,*** to discuss functional areas and changing trends of trade service operations of banks as of 2022 and 2023; ***two***, to discuss the changing regulatory environment and evolving challenges of trade services by banks in Bangladesh; and ***three,*** to identify the future course of actions for strengthening trade services by banks in the country.

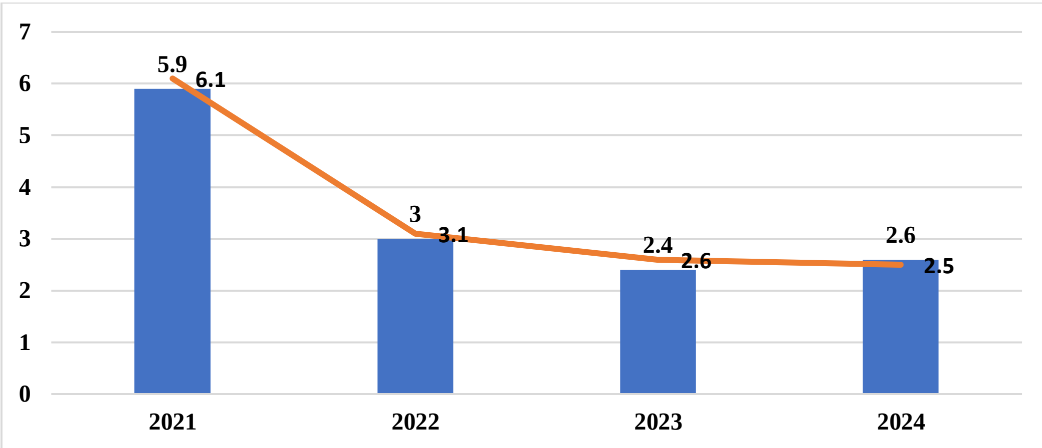
The review study is based on both primary and secondary information. Publications and reports on trade payments and financing are the secondary sources. BB data were extensively used. ICC documents, global trade-related reports on trade and trade services were the major secondary data sources. A questionnaire survey was conducted to collect primary data that incorporated both open-ended and close-ended questions. The survey was administered in thirty banks. Sample banks include four SCBs, twenty three PCBs of different generations, and three 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. Review of Global Trade and Trade Services and the Associted Challenges

2.1 Complex and Challenging International Trade

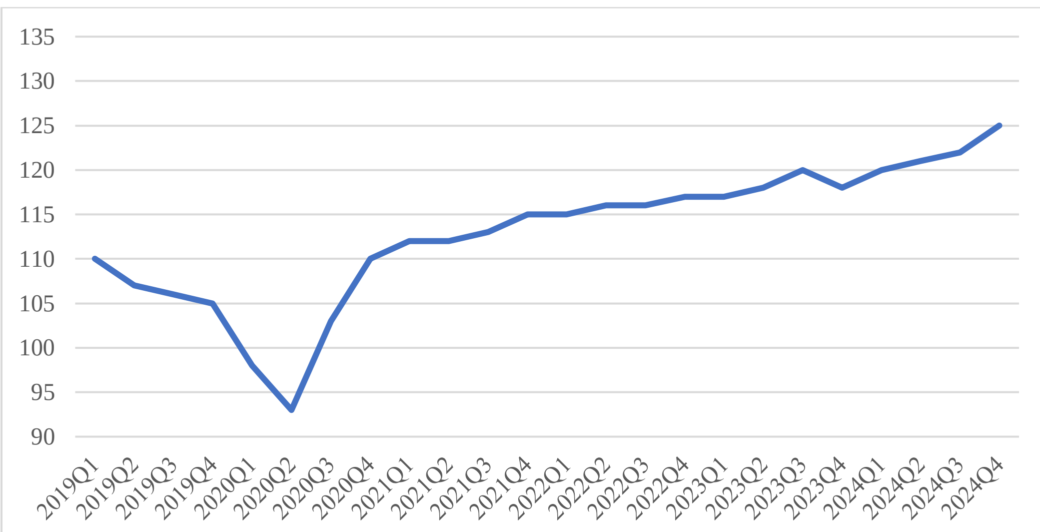
Trends for 2020 and 2021 clearly reveal massive downturns and fluctuations in response to the multiple waves of Covid-19 and the associated economic and logistic challenges. Unfortunately, global development further pushed global economies into the economic and trade down turn. Global economy and trade slowed further in 2022 in response to the contractionary monetary policy in major global economies in the effort to handle inflation. Allinged with the development, WTO projected world merchandise trade volume growth of 0.8% in 2023 – down from 1.7% in the April forecast – accompanied by real GDP growth of 2.6% at market exchange rates (Table 2.1). Trade growth is expected to pick up to 3.3% in 2024. Trade is expected to grow more slowly than GDP in 2024 but faster next year (Figure 2.2 and Figure 2.3).

Figure 2.1: Real GDP Growth and Projections



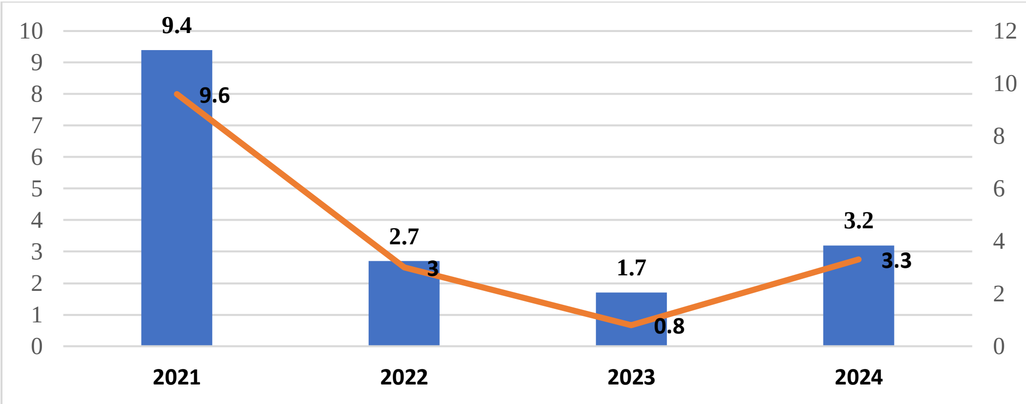
Note: Based on WTO (2023) data.

Figure 2.2: Volume of World Merchandise Trade [Volume Index 2015=100]



Note: Based on WTO (2023) data (WTO and UNCTAD Historical Data)

Figure 2.3: Growth of Merchandise Tarde with Projections



Note: Based on WTO (2023) data.

2.2 Trade Services in the Context of the Global Economy: Developments and Challenges

Trade finance activity depends upon a nexus of relationships between various institutions, which collectively attempt to mitigate the risks inherent to international trade activities. Several trade finance instruments are available, and these instruments reflect relationships between various actors in the trade finance ecosystem. One important distinction between trade finance and other forms of finance is that the relationships that underpin them are cross-border in nature. The key players in the ecosystem include importing firms; exporting firms; banks in importing countries; banks in exporting countries; regulators; and multilateral development banks.

Data on the exact volume of trade financing products lack accuracy, however, still traditional trade financing products (TFP) have comprehensive dominance in the market. According to the ICC survey (2021), of the different supply chain products (SCF), receivables discounting is seen as the most in-demand supply chain technique from a client perspective, followed by payables finance, loans/ advances against receivables, and factoring.

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. Bank-to-bank relationship is another prominent feature of trade finance architecture associated with TFPs. Facilitating payment for international trade activity requires a bank in the supplier's country to enter a correspondent relationship with the bank in the buyer's country. These banks can take up various roles, ranging from issuing bank, confirming bank, advising bank, nominated bank, remitting bank, collecting bank, etc. depending on the specific instrument involved. Bank-intermediated trade finance is more costly and less flexible than open account trade finance, but it offers greater protection for suppliers and is preferred for trade activities involving riskier clients or destinations.

Figure 2.4: Bank-Facilitated Finance (trillion USD) in the Globe

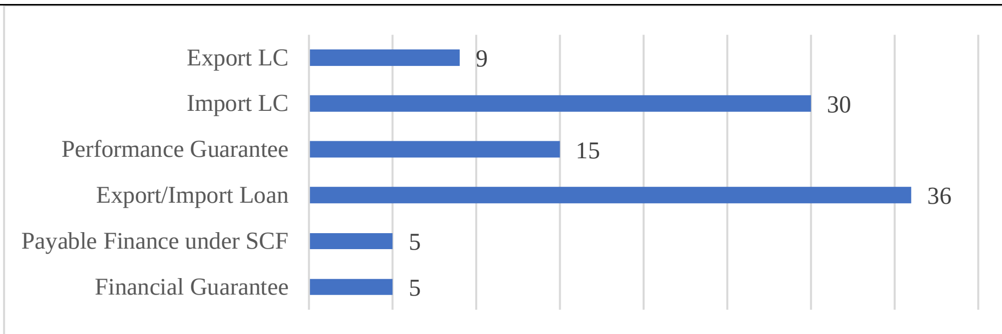
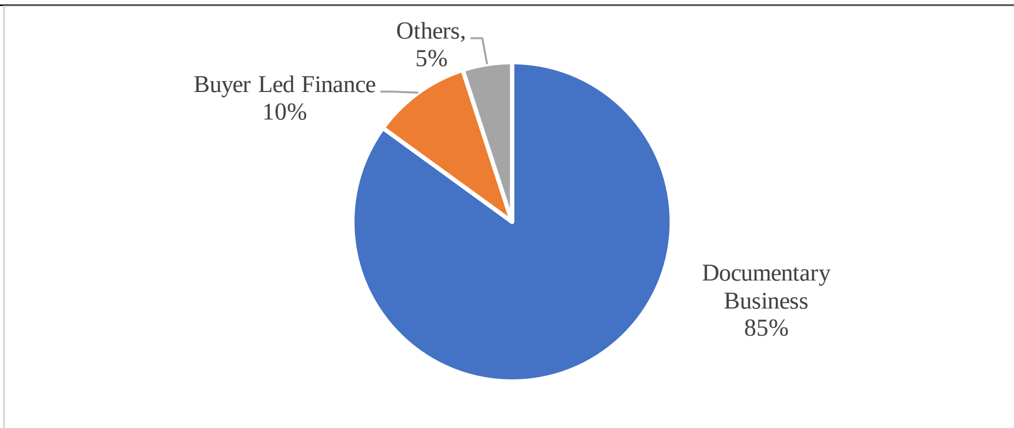


Figure 2.5: Product Distribution



Source: ICC, 2021.

According to the most recent published documents, the volume of trade finance transactions supported by major global banks was estimated to be around USD9 trillion, and trade loans, letters of credit, and guarantees account for 90% of trade finance transactions (Figures 2.4 & 2.5).

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 2.1: 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 (2023)		

The public sector, represented by national export credit agencies (ECAs) or export-import banks, also offers trade credit insurance and/or guarantee programs for commercial banks to share the risk burden and increase their incentives to finance trade transactions of the otherwise excluded client segments such as SMEs. In some cases, governments also play a role as a reinsurer for the national ECAs. Governments sometimes provide a trade loan subsidy to local or national banks, in addition to insurance and guarantees (Christian and Sreshtha, 2022).

Banks perform customer due diligence (CDD) on firms whom they finance. Through the CDD process, banks request information regarding Know-Your-Customers (KYC), Anti-Money Laundering (AML), and Counter Financing of Terrorism (CFT) measures to ensure they stay compliant with regulations in these areas. These are generally aligned with global regulatory guidelines or frameworks covering CDD-related measures on KYC, AML, and CFT, as well as things pertaining to banking prudence, such as the Basel III rule on capital requirement. Multilateral development banks and international organizations have played a role in facilitating adequate provision of trade finance for underserved markets and players. International support for trade finance has also strengthened during economic downturns (Auboin and Behar 2020).

2.2 Developments and Challenges in Global Trade Services Market

2.2.1 Supply Chain Disruption and Barriers to Trade Finance

Challenges associated with trade logistics and associated costs have notable implications for trade services. Shipping rates are a major component of trade costs, and the new hike in the rates poses an additional challenge to the world economy as it struggles to recover from the worst global crisis. The impact on freight rates has been greatest on trade routes to developing regions, where consumers and businesses can least afford it. For example, by early 2021, freight rates from China to South America jumped 443%, and 63% on the route between Asia and North

America's eastern coast (unctad.org)[1]. Several disruptions and challenges created barriers for international trade and the associated trade finance including[2] scarcity of inputs and support services; growing freight charges; port congestion; enforcement difficulty of digital transformation; and inflation (Box 2.1).

Box 2.1: Key Contributory Factors of Supply Chain Disruption

Scarcity of Inputs and Support Mechanisms: Insufficient inputs have been a concern since the pandemic began, due to an abrupt rise in consumer demand like never before. In fact, a survey conducted by the Institute for Supply Management (ISM) revealed 'record-long lead times, wide-scale shortages of critical basic materials, rising commodities prices, and difficulties in transporting products across industries.'

Growing freight prices: Since this demand was much more substantial than anticipated, it was met with insufficient shipping capacity and an unprecedented shortage of empty or available containers. As it often does, this scarcity has led to a large spike in pricing. In just the last year, freight rates from China to the West Coast have jumped by a whopping 240%.

Consistent Port congestion: Congestion occurs whenever a ship arrives at a port but cannot load (or unload) its freight because that station is already at capacity. Due to this congestion and the backlog it's created, a myriad of companies are unable to get their goods out the door on time -which means carriers are also unable to adhere to their specified delivery commitments.

Digital transformation: Even though these systems/services are intended to make e-commerce processes more efficient and cost-effective in the long run, the challenge lies in implementing them across a company's existing supply chain operations. It takes time and organizational realignment to put these technologies into action.

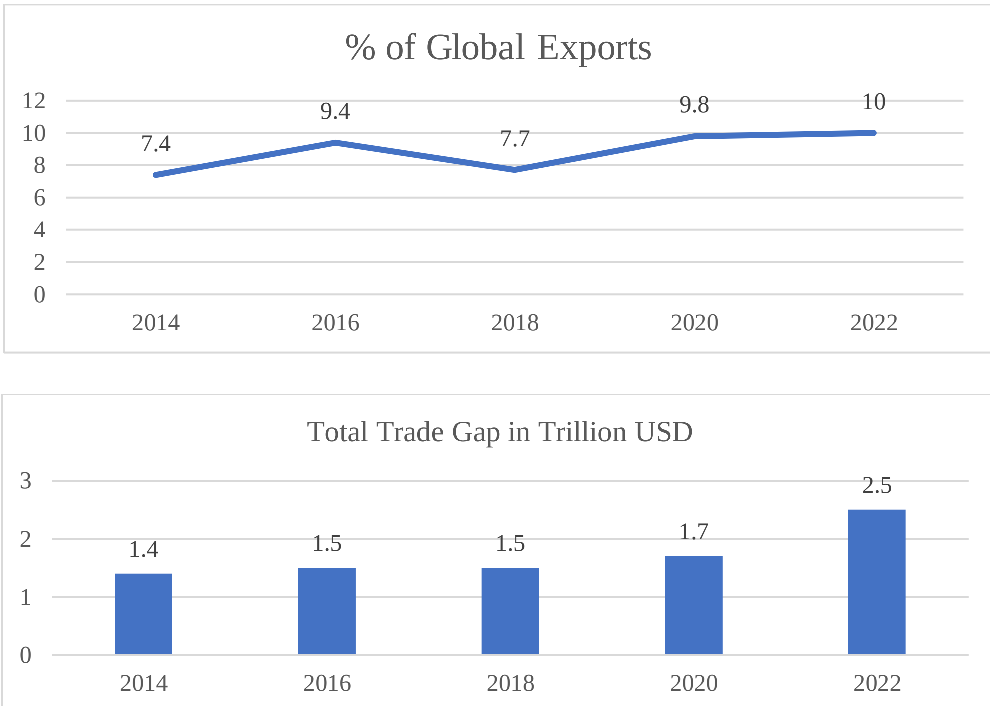
High Inflation: As this period of inflation stretches on, businesses must be prepared for cost increases related to the procurement of raw materials, finished products, and more. The consequences of these climbing costs often translate to excess or surplus inventory, mounting storage fees, smaller margins, and lowered revenue for your product-based brand.

[1] https://unctad.org/news/shipping-during-covid-19-why-container-freight-rates-have-surged
[2] https://www.extensiv.com/blog/supply-chain-management/challenges

2.2.2 Widening Trade Finance Gap

Global trade finance gap has been a critical challenge that has increased over time. The Covid-19 pandemic has led to a record-high trade finance gap. The trade finance gap widened to an estimated USD1.7 trillion in 2020, as per the latest Trade Finance Survey, accounting for 10% of global goods trade (Kim et al. 2021).

Figure 2.6: Global Trade Finance Gap



Source: ADB, 2023 Survey.

According to the ADB (2023) survey[3], 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 (Tarde Finance Global, 2022). It means in terms of total global export transactions that may be even upto 20 percent. On top of existing onerous capital and regulatory requirements, heightened risk aversion could also lead to even

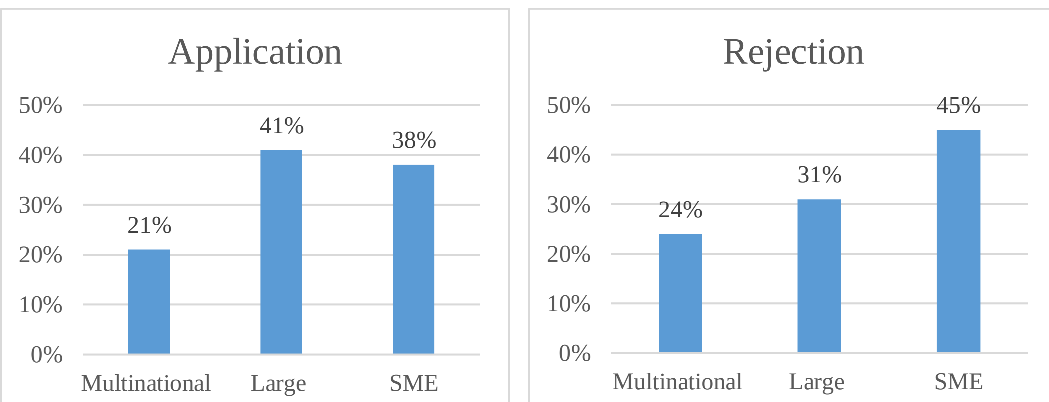
[3] Findings and recommendations in the 2023 survey are based on responses from 137 banks across 54 countries and 185 firms from 43 countries. The survey responses reflect over 60% of the global market for bank-intermediated trade financing. The survey responses were collected online from May 2023 to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

higher rejection rates in trade finance applications, as banks potentially cease taking on new financing obligations. Not only would this compound existing constraints faced by regular trade finance borrowers, but it would also make trade finance even more inaccessible to SMEs and women-owned enterprises. The overall result is a larger trade finance gap (ADB, 2022). High trade finance gap is relevant both for developed and developing countries and across the region. Notable trade-finance gap is clearly visible in Asia-pacific region and other regions of the globe, SMEs are more vulnerable than large firms.

2.2.3 High Rejection Trends of Trade Financing

The rejected applications disproportionately affected SMEs compared to larger firms. In 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 percent of the trade finance facility applications received from SMEs in 2019 (AfDB-Afreximbank, 2020). As such, women-led firms are also likely to face higher rejection rates and therefore greater financing gaps than businesses led by well-represented groups (Kim et al. 2021). 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).

Figure 2.7: Comparative Scenario of Trade Finance Application and Rejection



Source: ADB, 2023 Survey.

According to the ADB survey (2022), the most commonly cited reason (72.4%) for rejection is the stringent AML and KYC requirements in place today. In the 2021 survey of ADB, banks rejected around 44 percent of loan proposals because the application was totally unsuitable to support, did not have enough collateral, and had insufficient information. '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). Based on ADB (2022) survey, the reasons for the higher rejections may be summarised as follows (Table 2.2 and 2.3).

Table 2.2: Reasons for 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%
based on ADB survey (2022)	

Table 2.3: 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)	

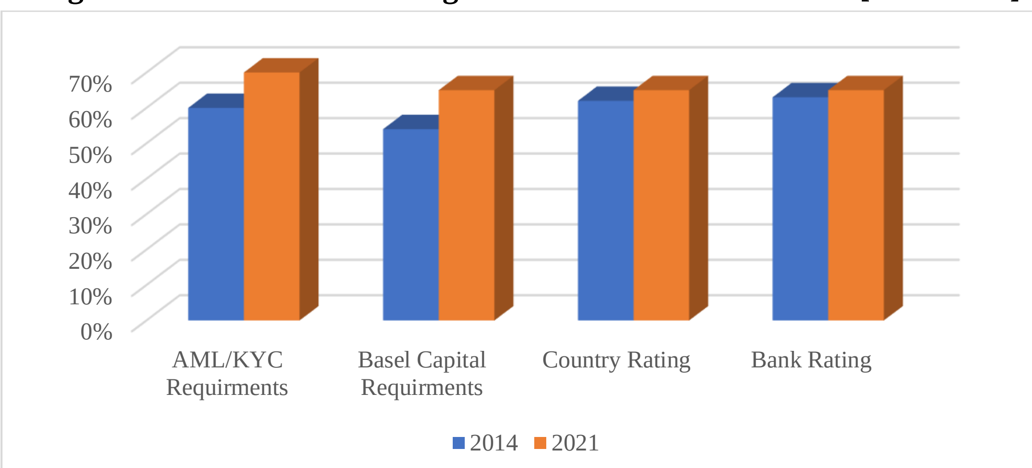
2.2.4 Changing and Growing Regulation and compliance requirements

In response to these increasing regulatory and compliance requirements, "decrease in the trade finance businesses" is the most common concern revealed by the banks. The ICC (2020) survey found, 56% of survey respondents indicated that their banks were significantly concerned both by understanding and implementing compliance procedures and with capital and regulatory requirements. While there was widespread similarity across banks on capital and regulatory requirements, there was a more pronounced divide between different types of banks in respect of compliance.

TBML took different shapes in the Covid-19 situation. Reporting from FATF members, observers, and open sources indicate that criminals have attempted to profit from the Covid-19 pandemic through increased fraudulent activities associated with international trade (FATF, 2020). There was a significant increase in seizures of counterfeit and unauthorized face masks and hand sanitizers during a collaborative enforcement effort by the WCO, Interpol, Europol, customs administrations, police forces and other law enforcement agencies (WCO, 2020). In this context, FATF and Egmont Group released a new publication 'Trade Based Money Laundering-Risk Indicators' in March 2021.

One of the unintended consequences of new trade regulations, which seek to combat criminal activity such as money laundering, is that they can also impede trade and SMEs are especially affected (Beck and Estrada 2021). The cost-push effect of complying with KYC and AML requirements has consistently hindered banks' servicing of global trade finance needs. The complexity of complying with regulatory requirements like KYC and AML procedures increases the cost of processing loans, which can make trade finance providers very selective of applications to approve. Practically, regulatory imposition and growing compliance requirements are becoming gigantic and restricting trade finance (Figure 2.8).

Figure 2.8: Factors Restricting Trade Finance Transactions [2014-2021]



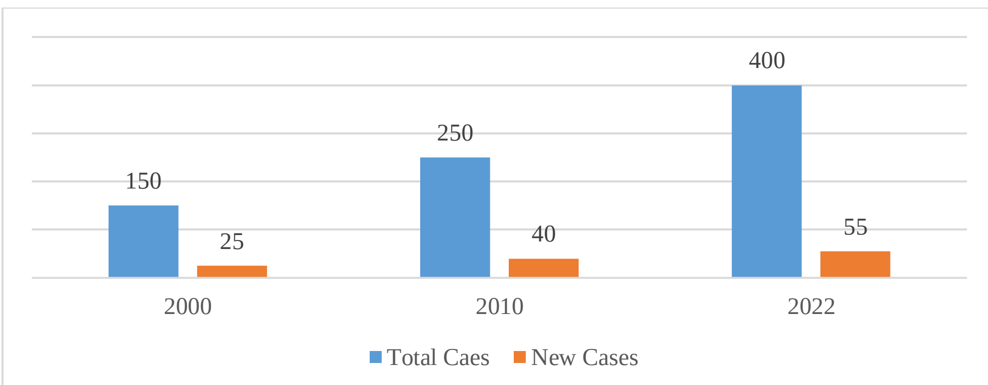
Source: Beck and Estrada, 2021

De-risking strategies by around one-third of banks negatively impacted importers and exporters, especially those in Asia and Africa. Basel requirements, on the other hand, mandate banks to hold more capital on their balance sheets, which induce banks to lend selectively and only to highest-rated borrowers (Clark 2017). This makes banks much more likely to lend to larger corporations than to SMEs and over-conscious approach (Metzgen, McLean et al., 2018).

2.2.5 Growing and High Implications of Sanctions

In terms of implications and enforcement approaches, UN and OFAC sanctions are particularly prominent and different. As member countries UN sanctions are bindings to the member states and are enforced through government entities. OFAC economic sanctions may not be the formal or explicit obligation to the global economies, however, are complied with in most instances to avoid business and reputation risks. OFAC's sanctions programs have a global reach due to the influence of the USA financial system and the role of the USD in international transactions. In reality, financial institutions and businesses must comply with OFAC regulations, and violations can result in substantial penalties and legal consequences (Morrison and Foerster, 2023). Over the years the number of sanction cases increased (Figure 2.9). In the aftermath of World War, I, there was broad interest in the use of economic sanctions as an alternative to war. The dramatic increase in the use of sanctions in recent decades is the result of a steady acceleration that began after World War II. There have also been significant changes in the purposes to which sanctions have been applied, in the types of sanctions used, and in the international actors who have imposed sanctions (Morgan et.al, 2023).

Figure 2.9: Trends in the Number of Sanction Cases over 2000, 2010, 2022



Note: Approximate numbers; based on Clifton et.al, 2023.

Applying sanctions is usually a double-edged sword. The country applying sanctions hurts its own businesses that trade with or invest in the target country. Companies that sanction imposing countries have had to stay away to reduce their trade with certain countries. Sanctions can also provoke counter-sanctions.[4] The consequences of this trend are evolving, but they potentially include companies' 'de-globalization'. Other consequences include changes in traditional foreign trade patterns in line with new geopolitical alignments. Sometimes sanctions can make

[4] For example, in 2014, Russia retaliated against Western measures by banning food imports from the countries that had joined sanctions against Moscow.

that behaviour even more problematic. Ironically, sometimes the true winner may be a third party[5] (World Economic Forum, 2015).

In the effort of effective compliance management, 'Over Compliance' is however a challenge that needs to be addressed (Habib et.al, 2023). Over-compliance is a form of excessive avoidance of risk. It may involve blocking all financial transactions with a sanctioned country, entity or individual even when some transactions are authorized by humanitarian exemptions[6] or fall outside of the sanctions' scope. In many instances de-risking[7] efforts by several global banks are believed to be over-compliance efforts (UN Guidance Note). Special Rapporteur of the UN recommends banks and other financial service providers address over-compliance for the sake of minimizing human rights violations.

Box 2.2: Addressing Over Compliance by Banks and Financial Institutions

To review their sanctions compliance policy to determine if the restrictions they impose on the provision of financial services are broader than those actually required by the sanctions, and to adjust their compliance to exclude, to the extent possible, any over-compliance. To monitor the human rights impact of their sanctions compliance policy on an ongoing basis to eliminate, mitigate or prevent any harmful impact; due diligence relating to the human rights impact of over-compliance with sanctions is both an initial act and an ongoing process. States are advised to ensure that banks and other financial service providers under their jurisdiction comply with the UN Guiding Principles, to avoid any negative impact on human rights due to over-compliance.

Source: United Nations, Guidance Note

[5] For example, European countries in the initial phases of US-Iran sanctions; China in the case of current Western sanctions against Russia; Russia in the case of the post-Tiananmen Western weapons ban on China; Turkey in the situation when EU pressure made Russia abandon its South Stream gas pipeline project (World Economic Forum, 2015).

[6] For example, The UN Security Council, in resolution 2615 (2021) relating to its sanctions against individuals, groups and entities associated with the 'Taliban' in Afghanistan, decided that 'humanitarian assistance and other activities that support basic human needs in the country are not a violation'.

[7] De-risking and over-compliance with the requirement of unilateral sanctions by banks force companies and individuals to look for alternative ways to transfer money, making the mechanisms of financial transactions cloudy, increasing costs and time for transferring money and goods, fostering corruption and criminal activities, within the borders of targeted countries other economies as well. In this context, where over compliance often undermines economic development.

2.2.6 Digitalization Efforts Taking Time and Remained Challenging

While digitalization is widely seen as very important, a survey by Global Trade Finance (2020) shows a clear divide between banks that have the vision, capacity and commitment: “While 83% of global banks have a digital strategy, only 46% of local banks have; only 17% of respondents have successfully implemented digital solutions, with a surprising one in five not yet seeing any tangible benefits; 22% of banks said that they have tried to implement technology solutions but that it has been imperfect, while a further 19% are currently struggling to even match that”. The survey also finds, “the volume of zero-touch trade finance processing remains limited: import and export LC 7-8%; export-import loans-9%; performance guarantee 6%”.

According to the ICC survey (2020) for most trade documentation, over 50% of respondents mentioned that documentation was no longer mandated to be paper-based in the context of trade financing; and there is evidence that local regulations and requirements remain a barrier to paperless trade in several instances (ICC, 2020). A Finastra survey (2020) of over 700 financial institutions and banks around the world highlights the problem of regulatory barriers to growth; almost half of the respondents believe regulations are holding back innovation (Trade Finance Global, 2020).

Rising Environmental, Social, and Governance (ESG) requirements and reporting standards have added to the barriers for SMEs (Trade Finance Global, 2023). Moreover, a considerable knowledge gap persists about fintech and trade finance. Further, SMEs remained far behind the larger companies in terms of financial literacy and familiarity with trade finance products

3. Regulatory Environment and Trade Facilitation through Banks in Bangladesh

3.1 A brief Review of the Regulatory Environment of Trade Services in Bangladesh

As part of the domestic regulatory framework, the Foreign Exchange Regulations (Amendment) Act 1947 (FERA 1947) is the most important domestic act for controlling and supervising international banking and foreign exchange transactions that mainly include trade payment and financing. In addition to that export and import policies, issued from the Ministry of Commerce, are relevant guidelines/rules for the banks and traders. The Customs Act has implications for

Trade Services.[8] Several United Nations (UN) guiding documents and International Chamber of Commerce (ICC) publications have been adopted to facilitate trade services globally (Table 3.1).

Table 3.1: Major Regulations/Guidelines relevant to International Trade Services in Bangladesh
Domestic Sets of Rules/Act • FERA 1947 (Foreign Exchange Regulation Act 1947) • Import Policy Order 2021-24 • Export Policy 2021-24 • BFIU Guidelines/Circualrs relevant to Trade Services • Offshore Banking Guidelines/Circulars relevant to Trade Services[9]
International Sets of Rules/Guidance • UCP 600 (Uniform Customs and Practice for Documentary Credit) • ISBP 821 (International Standard Banking Practice)[10] • URR 725 (Uniform Rules for Bank to Bank Reimbursement under Documentary Credits) • URC 522 (Unifrom Rules for Collection) • Incoterms 2020 (International Commercial Terms) • URDG 758 (Uniform Rules for Demand Guarantee) • ISP 98 (International Standby Practice) • GRIF (General Rules for International Factoring) • URF 800 (Uniform Rules for Forfaiting) • International Standard Demand Guarantee Practices (ISDGP 215).

Relvent circulars are issued by the Bangladesh Bank empowered by the FERA 1947, and these circulars are compiled with the title Bangladesh Bank Guidelines on Foreign Exchange Transactions (GFET) to be followed by the authorized dealers (ADs). During January 2022-December 2023, one-twenty-eight (128) FE circulars/circular letters were issued (summarized in appendix table-1). Selected

[8] Customs Act, 2023 replaces the Customs Act, 1969 with the goal of making up-to-date provisions on revenue collection, expansion of import and export trade, and facilitation of business. and expansion of new industrial sectors. Among other things, the new Act recognizes daily exchange rates of foreign currencies, or floating rates, ensuring transparency in customs assessments and transactions. The new law imposes a 10-percent penal tax in case of delays in releasing goods from the ports that often create congestion in the ports.

[9] The Offshore Banking Act 2024 is taking shape; in the draft of Offshore Banking Act-2024 formulated by Financial Institutions Division under the Ministry of Finance, it exempts income tax, and other direct or indirect taxes on profits and interest earned from offshore banking business.

[10] Effective from July 2023, ISBP 821 added certain new issues related to absence of credit number or the mistyping of the credit number; requirement for an additional set of copies; data to be inserted does not necessarily mean that such box, field or space; signing of the Copies; invoice currency as sign; signs in the Multimodal Transport document or Bill of Lading or non-Negotiable seaway Bill with accompanied information; insurance docuements by agent or proxy; identification of 'Insurer' as an insurance company or Underwriter (ISBP, 821).

key circulars of FEPD and relevant circular of BRPD and their existing and potential implications are narrated in the following table (Box 3.1).

Box 3.1 : Major Circulars and Circular Letters Associated with Associated with Trade Services during January 2022- February 2024)

Restriction on Fund transfer from Domestic banking to Offshore banking (BRPD Circular Letter 04 Dated 16 January 2024). To speed up foreign currency inflow and reduce the dependency of banks' offshore banking operations on domestic banking. Banks are prohibited from transferring additional foreign currency funds from their domestic operations to offshore banking units. Moreover, banks have to reduce the foreign currency funds transferred from domestic banking phase by phase and completely adjust it by December 31, 2024.

Refinance Scheme for Pre-Shipment Credit (BRPD Circular Letter 33, 13 August 23): Exporters will have to avail pre-shipment credit under the refinance scheme at an interest rate of 5%. Participating banks will have to borrow funds from this scheme at a rate of 2%, while clients will be charged a maximum of 5% interest on the borrowed amount.

LC Margin on Import Financing (BRPD Circular Letter 19, 20 June 23): Banks can fix margin for opening letters of credit (LCs) based on their relation with importers, for commercial importers to cater to cottage, micro, small and medium enterprises (SMEs), aiming to accelerate growth of industries and jobs. The relaxation can be availed by importers of parts and related materials for uninterruptable power supply or instant power supply, security related items, steel sheets and other goods for construction industries. Traders importing computers, laptops and their parts, ICT and cyber security related products and spare parts, tyre, tube and other related items will also be able to avail the facility.

Wider scope in operations of Resident Foreign Currency Deposit (RFCD) accounts (FEPD Circular Letter No. 19, 3 December,23): RFCD accounts may be opened in any approved foreign currency such as USD, EUR, GBP, JPY, AUD, CAD, CHF, CNH and SGD for minimum one month at mark-up of 1.50 percent over benchmark rate. Remittances can be effected on current transactions for dependents of account holders, in addition to transactions including but without limiting to cost of travel, education for children, treatment, etc. for account-holders. Without limiting to account-holders themselves, maximum 2(two) supplementary International Cards (debit/credit/prepaid) may be issued to dependents of account holders against RFCD accounts.

Maintaining FC accounts by resident Bangladeshis and others with Offshore Banking Operations (FEPD Circular No. 19, 29 November 23): OBOs may maintain FC accounts termed as International Banking (IB) accounts in the name of resident Bangladeshi individuals and corporate entities including Type-A, Type-B and Type-C industrial enterprises operating in EPZs/EZs/HTPs having bonafide relations with non-residents. In this context, IB account-holder will act as facilitator of remitters and utilize the funds accordingly for Above 3 years and up to 5 years with benchmark reference rate plus 3.25 percent.

Settlement of import liabilities out of export proceeds (FE Circular Letter No. 16 Date: October 08, 2023): The transfer facility of retained value added portion is ceased for exporters producing outputs against procurement of input contents under BBLCs. The unencumbered balance so retained is useable for specified purposes through other ADs for exporters and eligible local suppliers producing outputs against (i) bulk imports, and/or (ii) local contents.

Reinstatement of limits of Exporters' Retention Quota (ERQ) account (FE Circular No.15 Date: September 24, 2023): ADs will hav to keep the retention limit out of realized export proceeds of ERQ to 7.5 percent, 30 percent, and 35 percent from 15 percent, 60 percent and 70 percent respectively Bangladesh.

Ceiling against borrowing from Export Development Fund (EDF) (FE Circular No. 06 Date: April 09, 2023): Ceiling to USD 10.00 million from USD 15.00 million has been reset for input procurements under back to back LCs (BBLCs) against relevant export orders. The limit for imports under BBLCs by individual member mill of BGMEA and BKMEA is set at USD 20.00 million and USD 15.00 million respectively, including USD 15.00 million for individual exporter of leather goods and footwear sectors. In addition, the maximum eligible limit for bulk imports by member of eligible associations BTMA and BDYEA is USD 20.00 million and USD 10.00 million respectively.

Interest charges for financing during interim period against input procurements under Export Development Fund (EDF) (FE Circular No. 06 Date: April 19, 2022): ADs may charge additional interest to borrowers not exceeding 1.0 percent per annum for the period between 'import payments from sources of ADs' and 'receipts of refinancing from EDF.

Policy for Post Import Financing-PIF (BRPD Circular Letter 41, 26 October 2022): PIF facility is not applicable for inland letters of credit, however PIF facility can be availed by same group or associated groups for cross border transactions in finished goods.

Screening of underlying export shipments and import shipments through vessel/container tracking (FE Circular No. 07 Date: April 20, 2022 and FE Circular No. 09 Date: May 17, 2022 respectively**):** ADs will have to conduct the tracking of shipments (both export and import) in all cases through tracking system recognized by competent authority for relevant trade transactions.

Repayment guarantees by importers against short term import finance under buyer's credit (FE Circular No. 12 Date: July 13,2022): Importers may extend guarantees like corporate guarantee, personal guarantee, third party guarantee, etc. to foreign lenders making payments to suppliers under buyer's credit against admissible imports on sight letters of credit.

Interest on Non-resident Foreign Currency Deposit Accounts (Interest rate ceiling on Non-resident Foreign Currency Deposit (NFCD) Accounts) (FE Circular No. 19 Date: August 1, 2022): ADs can set annual interest rate ceiling for NFCD accounts benchmark rate plus 2.25 percent and benchmark rate plus 3.25 percent for the periods of I year upto 3 years and above three years and up ot 5 years respectively.

Foreign exchange transactions for merchanting trade (FE Circular No. 22 Date: September 14, 2022): The entire merchanting trade is to be routed through the same AD. The designated AD shall verify the documents and satisfy themselves about the genuineness of the trade. In case of the receipt of transferable Letters of Credit (LCs) to execute merchanting trade, the same may be transferred favoring suppliers of relevant countries. Merchanting traders will be entitled to have retention quota facility on realized proceeds, net of outward remittances.

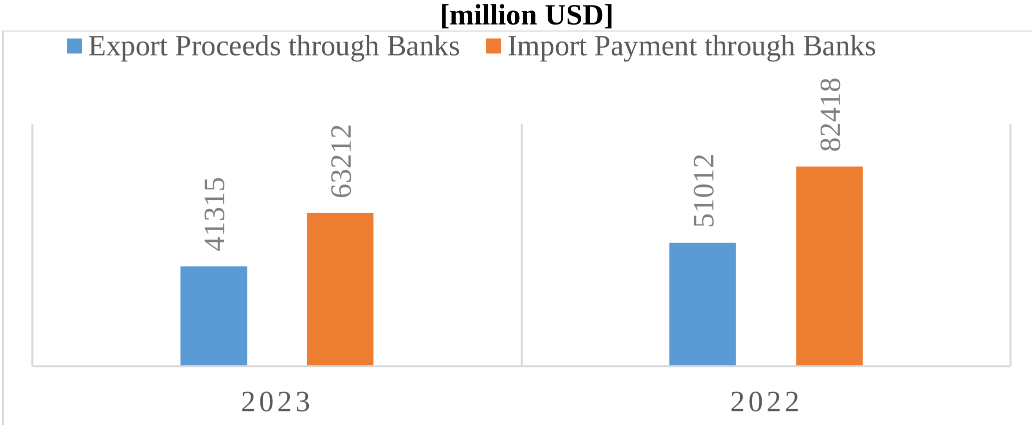
Compliance with the guidance and circulars of the Bangladesh Financial Intelligence Units (BFIU) is directly related to handle money laundering and terrorist financing through trade services by banks. BFIU issued specific guidelines for banks to prevent TBML. BFIU issued Guidelines for the Prevention of Trade Based Money Laundering in 2019 along with its Master circular BFIU Circular No. 26 in 2020. Morever, BFIU has developed a uniform price verification format and instructed banks to use the format as a part of infrastructure development to prevent over and under invoicing.

Purchase-sale contact, the starting operational point, is an essential document in trade facilitation however is hardly standardized and legally enforceable in the country. Vulnerability associated with the legal enforceability of the purchase-sale contract was exposed on several occasions during Covid-19 when importers cancelled import orders[11] in recent time! Regarding uniform rules for international trade contracts, the major trading partners of Bangladesh like the United States, UK, members of the EU, China have already ratified 'UN Vienna Convention'. Most of the trading partners of the country are also among the signatories of 'Unidroit Principles' However, Bangladesh is yet to ratify the treaty or the principles.

3.2 Trade Facilitation through Banks during CY 2022 and CY2023 in Bangladesh

Exports and Import proceeds through banks declined in the CY2023 as compared to the year CY2022, according to the Bangaldesh Bank data. Import payments experienced over 23 percent decline whereas export playment decelerated by close to 20 percent in between CY2022 and CY2023 (Figure 3.1). The data reflects the economic and tarde uncertainty, and foreign exchange market instability that the country confronted in frecent time.

Figure 3.1: Export and Import Payments and Receipts through Banks [million USD]



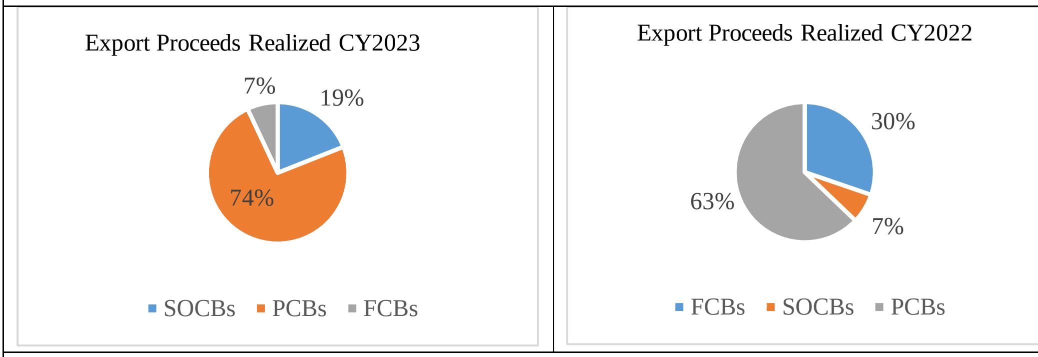
Source: Based on Bangladesh Bank (2024) data.

Dominance of Private Comemrcial Banks (PCBs) in the trade facilitation (export receipts and import payments) remained consistant both for the year 2022 and 2023

[11] As of March 2020, Global clothing brands and retailers cancelled import orders worth USD 1.40 billion from the country as the pandemic of the coronavirus hit their business badly, mostly in European and US markets. A total of 347 apparel exporters faced order cancellations worth USD 927 million, and 220 knitwear exporters faced work orders worth USD 480 million cancellations (https://www.dhakatribune.com/business/2020/03/22/1-4bn-apparel-export-orders-cancelled).

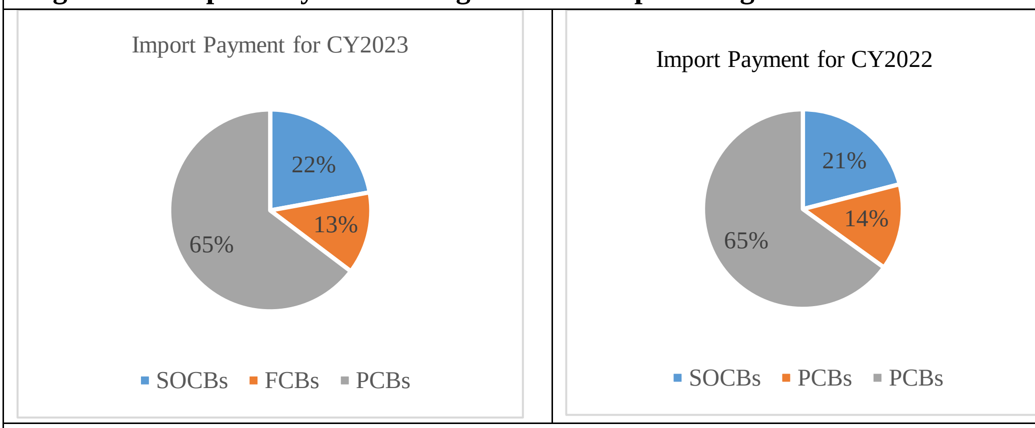
(Figures 3.2 and 3.3). PCBs showed relatively better performance (Figure 3.2) in terms of market share of 'export receipts' in the year 2023 (74%) as compared to that of 2022 (63%).

Figure 3.2 : Export Receipts through Bank Groups during CY 2023 and CY2022



Source: *Authors' Calculation Based on BB Data (2024)*

Figure 3.3: Import Payment through Bank Groups during CY 2022 and CY2023



Source: *Authors' Calculation Based on BB Data (2024)*

Regarding the performance of individual banks in facilitating import and export payment and receipt, a few PCBs and FCBs showed better performances. In terms of facilitating export receipts, HSBC, Standard Chartered, United Commercial Bank, and Southeast Bank remained in the top four for the CY 2022 and CY 2023 (Table 3.2). As a whole, all top banks experienced a collective decline in figures of export receipts during 2023. In import payment, Janata Bank, Agrani Bank and Islami Bank remained in the top three (Islamic Bank Bangladesh PLC however lost the top spot) in the year CY2023. HSBC and standard Chartered maintained their top five spots both in CY2022 and CY2023 (Table 3.3).

Table 3.2: Top Five Export Receipt Facilitating Banks [in Million USD]			
Name of the Bank	**CY2023**	**CY2022**	**Name of the Bank**
HSBC Ltd	3424	4265	HSBC Ltd
Standard Chartered Bank	2535	3326	Standard Chartered Bank
United Commercial Bank PLC	2530	3109	United Commercial Bank PLC
South East Bank PLC	2046	2528	South East Bank PLC
City Bank PLC	1940	2433	EXIM Bank PLC
Source: *Authors' Calculation Based on BB Data (2024)*			

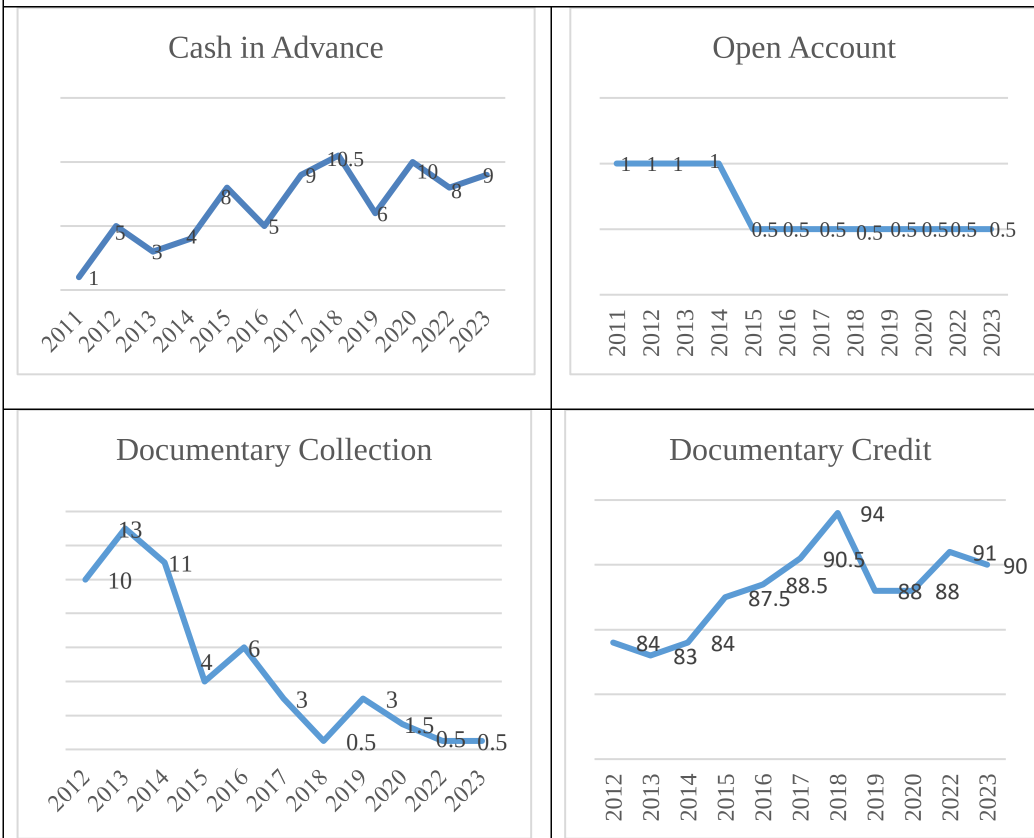
Table 3.3: Top Five Import Payment Facilitating Banks [in Million USD]			
Name of the Bank	**CY2023**	**CY2022**	**Name of the Bank**
Janata Bank PLC	4276	6257	Islami Bank Bangladesh PLC
Agrani Bank PLC	4043	5612	Janata Bank PLC
Islami Bank Bangladesh PLC	3976	5556	Agrani Bank PLC
HSBC Ltd	3561	4743	HSBC Ltd
Standard Chartered Bank	3530	4455	Standard Chartered Bank
Source: *Authors' Calculation Based on BB Data (2024)*			

4. Trade Payment-Financing Products and the associated Operational Procedures

4.1 Trade Payment Services in Export and Import Transactions by Banks

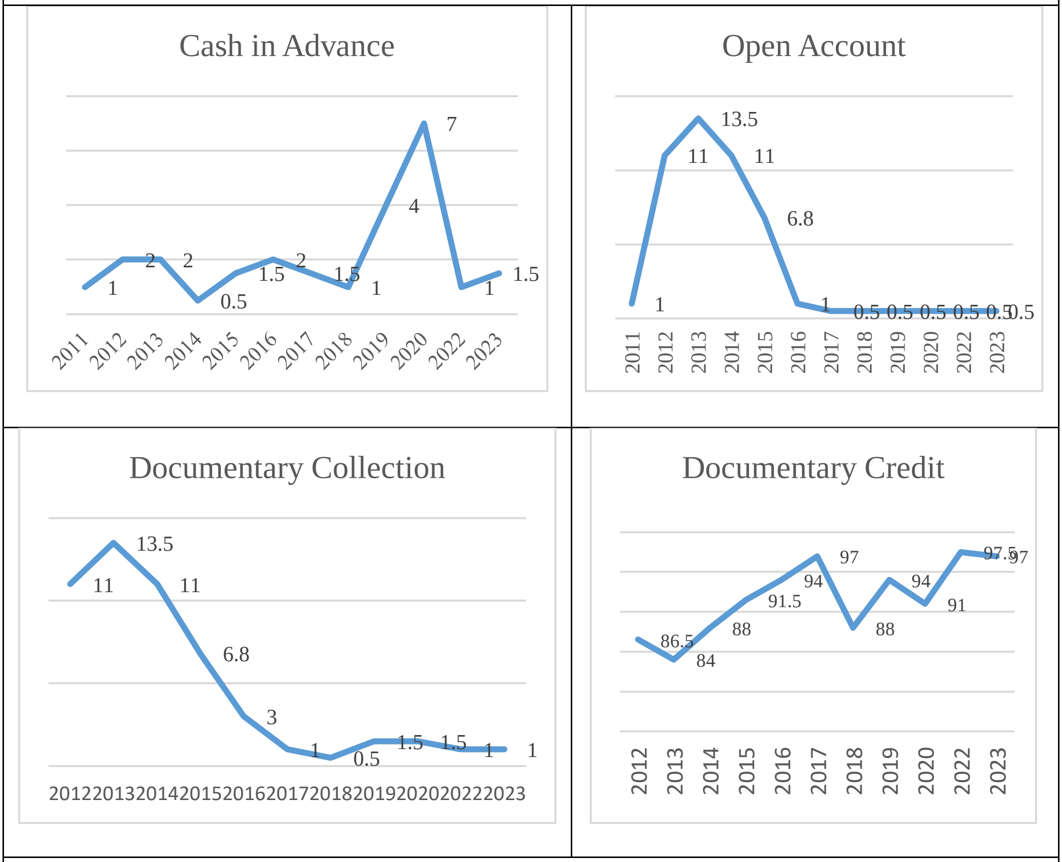
Considerable dependence on documentary credit is reflected in the survey data both in terms of number and volumes over 2012-2023 (Figure 4.1 and 4.2). This is not consistent with most of the developed economies where most payment transactions take place through open account. Deference in terms of number and volume logically indicates the use of bigger-size imports through LC. Marginal decrease in the documentary collection in importation may be explained by the increase in cash in advance. Of the different categories of banks, FCBs' documentary collection holds a significant portion because most MNCs operating in the country maintain trade transactions with FCBs where MNCs work with their parent companies. A few PCBs are also added to the list in recent times.

Figure 4.1: Use of Methods in Import Payment [No. of Cases] in Percentage during CY2012-2023



Source: *Survey Data (2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021 & 2023)*

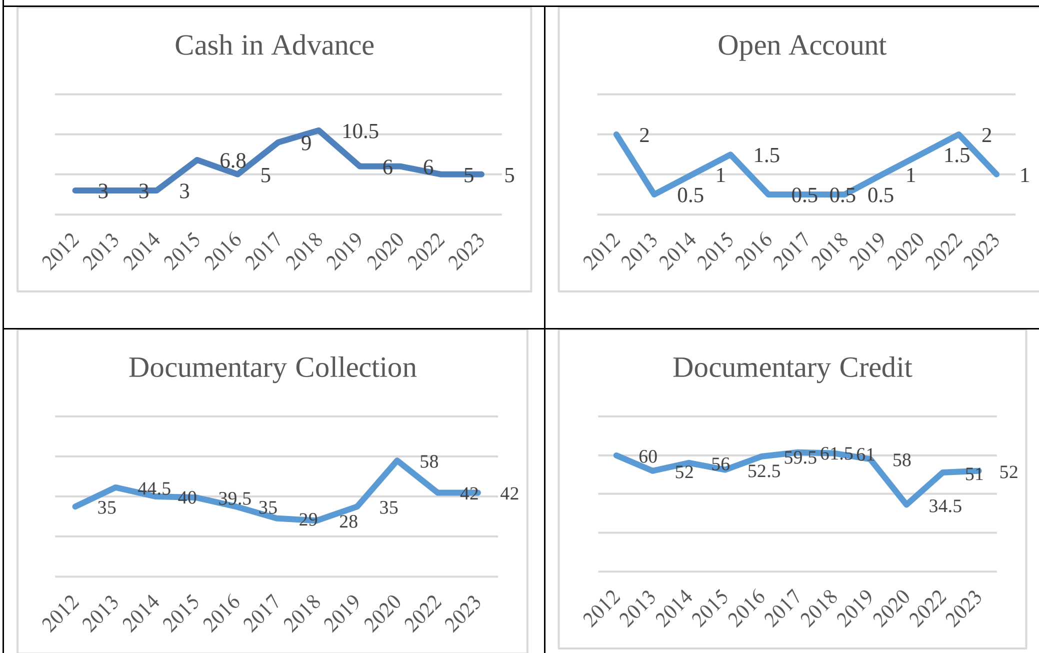
Figure 4.2: Use of Methods in Import Payment [In Volume] in Percentage during CY2012-2023



Source: *Survey Data (2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021 & 2023)*

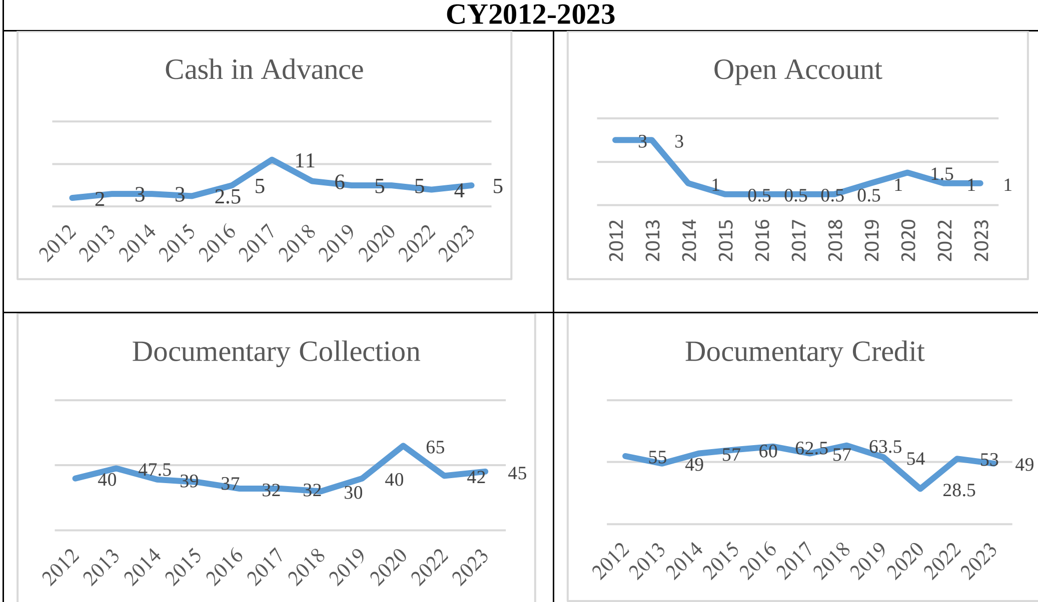
Notable shift took place in exportation when documentary collection became most dominant trade payment method in CY2020 both in terms of number and volumes (Figures 4.3 and 4.4). In several instacnes, foreign buyers were not found to be interested in offering LC in the unprecedented period of economic and trade disruption following Covid-19, however situation again shifted towards LC (as reflected in the data for 2023). Use of LC increased to 52% (in number) and 49% (in volume) in CY 2023. In receiving export earnings, use of documentary collection in FCBs is higher than that of documentary credits as compared to PCBs and SCBs. FCBs are akin to globally reputed buyers where they prefer documentary collection to documentary credit to reduce transaction costs.

Figure 4.3: Use of Methods in Export Receipts (No. of Cases) in Percentage during CY2012-2023



Source: Survey Data (2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, and 2024)

Figure 4.4: Use of Methods in Export Receipts (In Volume) in percentage during CY2012-2023



Source: *Survey Data (2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020, 2021, and 2024)*

Contract-based trade payment methods (mainly documentary collection and open account) have been dominant in EPZ transactions both imports and exports. Similar to that of the national trade payment figures, use of LC declined with the increase in the use of documentary collection both in exportation and importation facilitated by the Offshore Banking Units (OBUs) of banks, as observed in survey. This market has compressively been dominated by the multinational banks Standard Chartered and HSBC in Bangladesh.

Table 4.1: Use of Payment Methods in Different Sectors (in Export) in CY 2018-CY 2023 (Percentage in Number)

Payment Methods	**RMG (Knitwear)**			**Raw Jute and Jute Goods**			**Leather**			**Fish & Shrimp**		
	2018	2020	2023	2018	2020	2023	2018	2020	2023	2018	2020	2023
Payment in Advance	10	9	2	40	20	15	1	8	13	10	45	15
Open Account	0	1	1	0	0	0	0	0	0	0	0	0
Documentary Collection	50	62	37	30	30	25	40	2	17	30	35	30
Documentary Credit	40	28	60	30	50	60	60	90	70	60	20	55

Source: *Survey Data (2019, 2021 & 2024)*

Table 4.2: Use of Payment Methods in Different Sectors (in Import) for CY 2023 (Percentage in Number)

Payment Methods	RMG (Knit, Woven and Sweater)	Pharmaceutical Sector	Machinery and equipment. Electrical appliances	Petroleum Products
Cash in Advance	8	3	8	1
Open Account	0.5	0.5	0.5	0
Documentary Collection	3	2.5	4.5	0
Documentary Credit	88.5	96	87	99

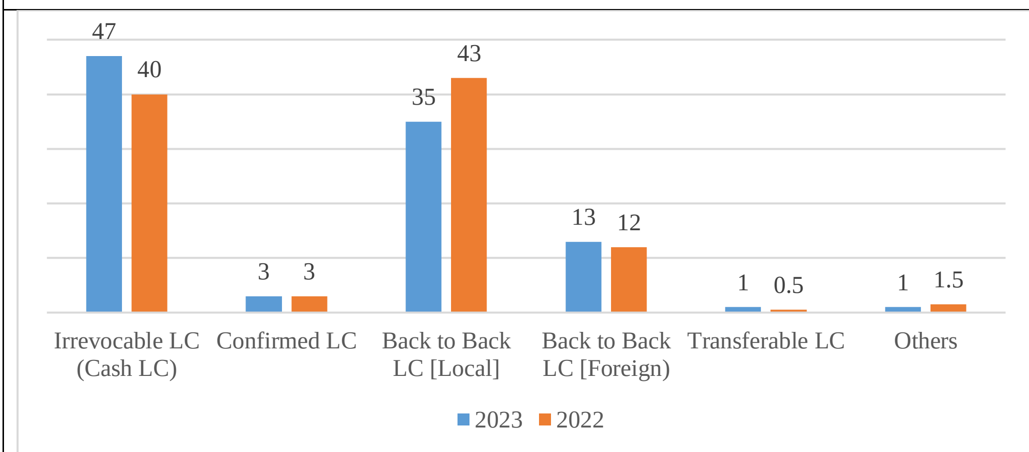
Source: Survey Data (2024)

Covid-19 trade disruption brought in notable changes in the trade payment facilitation by banks mainly following CY 2020. Issuance of deferred/acceptance LCs increased considerably during the pandemic because of the BB's policy relaxation to enhance usance period of LC (Habib et.al, 2020a). On the export side, due to lower interest rate and maturity extension of repayment duration in the Export Development Fund (EDF), demand for opening EDF LCs has gone up considerably (Habib, et. al, 2020c). In the context of foreign exchange market instability, and associated policy responses, trade payment facilitation changed shape, and the popularity of deferred/acceptance LC declined.

4.2 Documentary Credit Types-Bangladesh Context

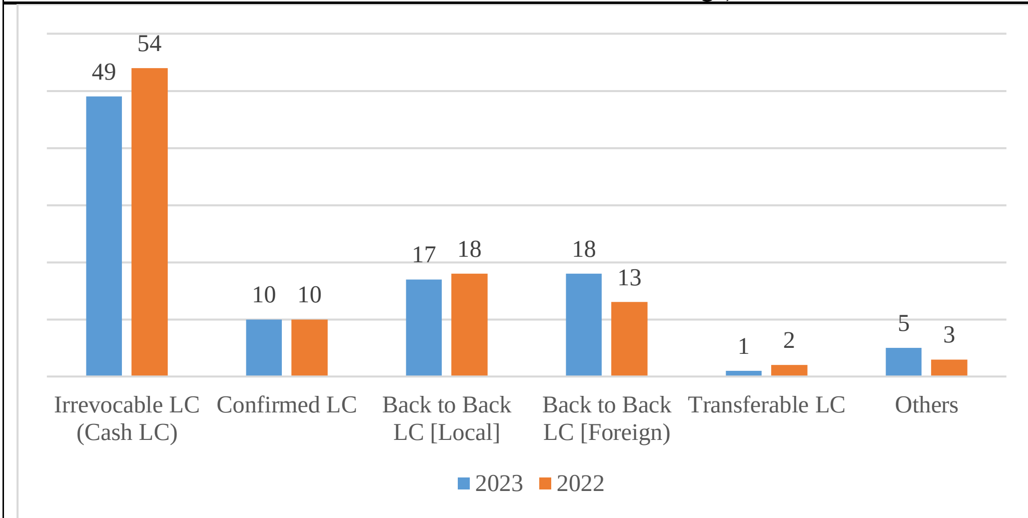
In Bangladesh, all LCs opened are irrevocable as required by the import policy order and UCP 600. Of the special type of LC, a portion is back-to-back LC. This is because the garments sector imports/procures raw materials from home and abroad to meet their export orders (Figure 4.5). Sight LCs, in this case, refer to letters of credit that are issued by banks in the form of coded to honor a presentation when the documents are compliant (popularly called cash LC). Number of local back-to-back LC is high (in terms of number of cases). Small size of local back-to-back is reflected by the lower percentage of local LC in terms of volumes (Figure 4.6).

Figure 4.5: Types of Import LCs Issued by Banks (No. of cases in %) during CY2023 and CY2022



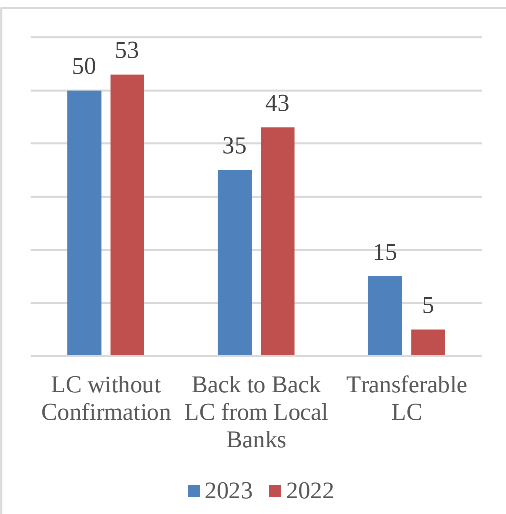
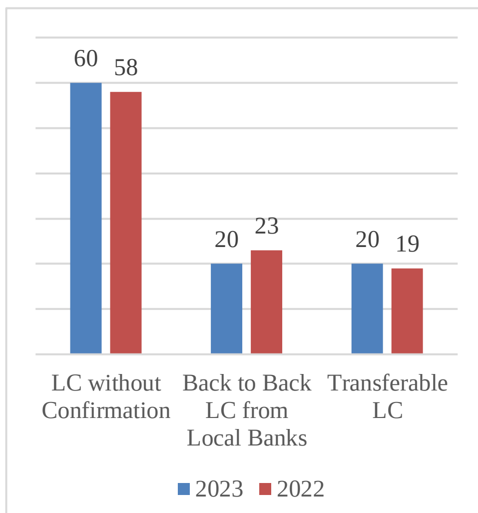
Source: *Survey Data (2024)*

Figure 4.6: Types of Import LCs Issued by Banks (in volume during CY2023 and CY2022 in Percentage)



Source: *Survey Data (2024)*

Figure 4.7: Types of Export LCs Received by Banks (%) during CY2023 and CY2022

Different Types of Export LC Received by Banks [In No. of cases] in CY2022-23	Different Types of Import LC Issued [Volume] in CY2022-23
	

Source: Survey data (2024)

Of the special types of LC, use of transferable LC in Bangladesh may be explained by the presence of a number of buying houses. Besides, the practice of subcontracting by the garments manufacturers is also very common for which an LC is transferred (Figure 4.7).

4.3 Documents Required in Documentary Credit

Use of documents in the trade financing remains constent over the years (Table 4.3). The survey data show that in case of all the documentary credit opened from the country in CY 2023, the issuing banks were required transport documents [bill of lading, airway bill, truck receipt etc.], commercial invoice and certificate of origin. The insurance documents are rarely asked as per the country's import policy, insurance is to be covered by domestic importers. In case of export LC, the documentary requirements are not very different. Insurance documents are less frequently required in the LCs sent to Bangladesh exporters. Ocean bill of lading or multimodal has been the most commonly used type of transport document (Table 4.4).

Table 4.3: Documents Required in Import LC Export LC] during CY 2012-CY2023

Name of Document	2012-2019		2023	
Name of the Document	Import LC	Export LC	Import LC	Export LC
Transport Document	All	All	All	All
Insurance Document	Very rarely	Very rarely	Very rarely	Very rarely
Commercial Invoice	All	All	All	All
Certificate of origin	All	Very Frequently	All	Very Frequently
Bill of Exchange	Very Frequently	Very Frequently	Very Frequently	Very Frequently
Packing List	Very Frequently	Very Frequently	All	Very Frequently
Weight List	Less Frequently	Less Frequently	Less Frequently	Less Frequently
PSI Certificate	Less Frequently	Less Frequently	Less Frequently	Less Frequently

Source: *Survey Data (2013, 2014, 2015, 2016, 2017, 2018, 2019, 2020 & 2024)*

Table 4.4: Use of Transport Documents in Imports and Exports in CY 2022-2023

	CY 2023 [%]		CY 2022[%]	
Transport Document [types]	Import	Export	Import	Export
Multimodal /Ocean Bill of Lading	62	76	60	75
Airway bill	8	10	10	15
RRI	29	12	21	11
Others	1	2	1	1

Source: *Survey Data (2024)*

4.4 Credit Availability and Nature of Discrepancies in LC Operations.

Negotiation remains the most common form of the availability of documentary credit. Even today a big portion of the credits are issued from the countries that are freely available which means any banks may be nominated banks. In such a case, the exporter can submit documents at the counter of its own bank. The trend however has changed, and several banks prefer to restrict negotiation at the counter of certain banks having correspondence relationships. As the survey data indicate (Table 4.5), in most cases, credits were made available on negotiation basis during CY 2022-CY 2023.

Table 4.5: Credit Availability in LC Operations				
	CY 2023 [%]		**CY 2022 [%]**	
Credit Availability	Import	Export	Import	Export
Sight	15	35	13	40
Deferred	5	5	7	12
Acceptance	25	30	25	30
Negotiation	55	30	55	18
Source: *Survey Data (2023)*				

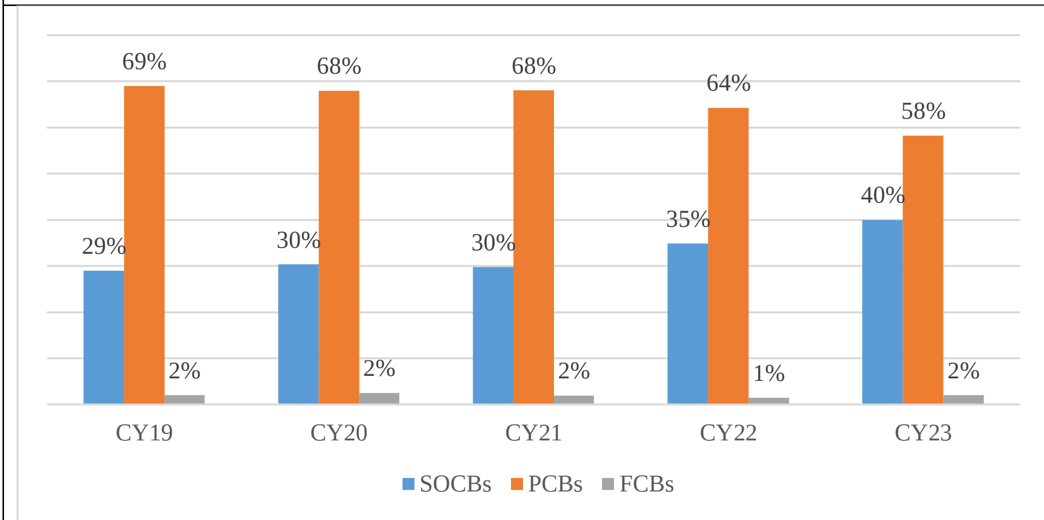
Table 4.6: Nature of Discrepancies in LC Operations				
	CY 2023 [%]		**CY 2022[%]**	
Discrepancies	Import	Export	Import	Export
Late Shipment	8	55	10	75
Late Presentation	12	40	15	60
LC Expired	8	20	9	20
Others (Data conflict, wrong HS code, LC value overdrawn, absence of documents, Bill of exchange drawn on wrong party, etc.)	80	20	78	35
Source: *Survey Data (2024); multiple responses.*				

Late shipment and late presentation had been the most common discrepancies in export documents over the years till CY 2023 (Table 4.6). This reflects the lead time challenges that our exporters have been confronting in the process of exports from the country. Imports from developed countries under LCs are having less such difficulties (lower percentage of late shipment and late presentation).

4.5 Trade Finance Facilitation by Banks

Trade finance market is dominated by the PCBs in Bangladesh including both export and import financing. PCBs remained overriding with 58% of the total trade financing in FY 2023 (Figure 4.8). One may observe slow but consistent increase in the trade financing by the government-controlled banks, whereas PCBs' market share was consistently declining. This increase of the outstanding figures of SOCBs may be explained by the relatively less success of trade credit recovery and credit takeover activities.

Figure 4.8: Trade (Export and Import) Finance by Bank Groups during CY2019 to CY2023



Source: *Authors' Calculation Based on MoF Data (2023)*

Of the pre-shipment finance, in CY 2023, PC was the main component for 75 percent of the total. The trend of this remained more or less consistent. The FDBP remained the core component (98%) in the post-shipment credit services CY 2023; 5% 'others' category included receivable financing including factoring which was insignificant (Figure 4.9).

Figure 4.9 : Distribution of Export Finance during CY2023-CY 2022

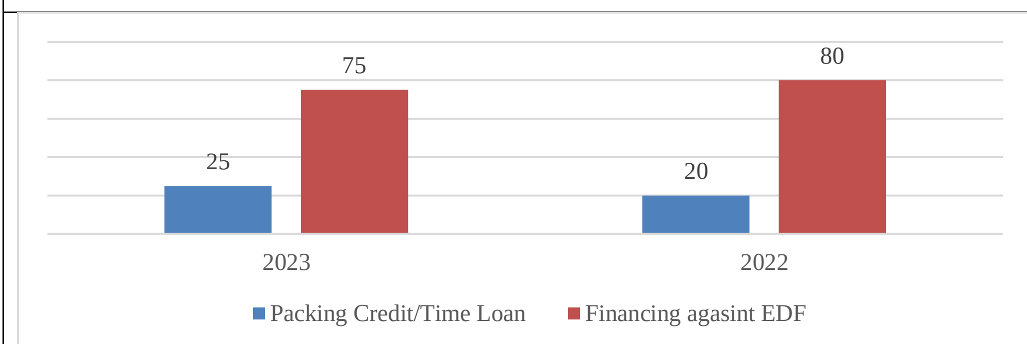
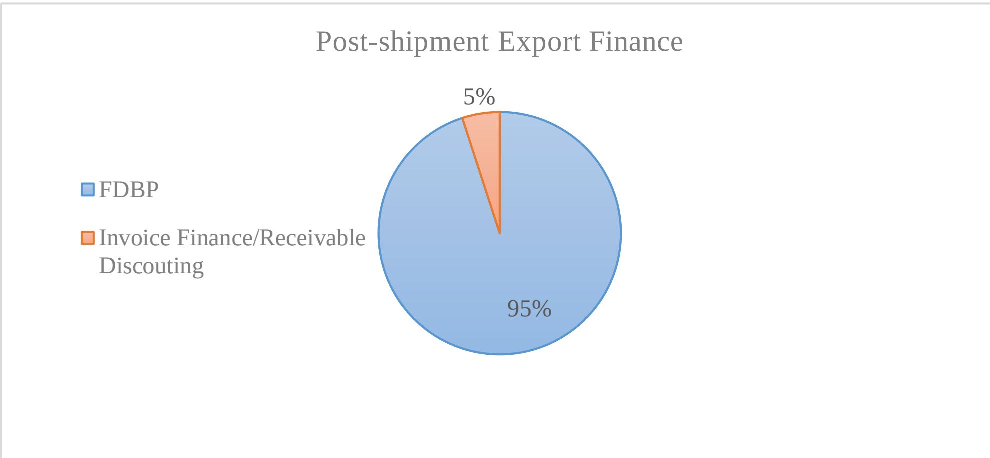
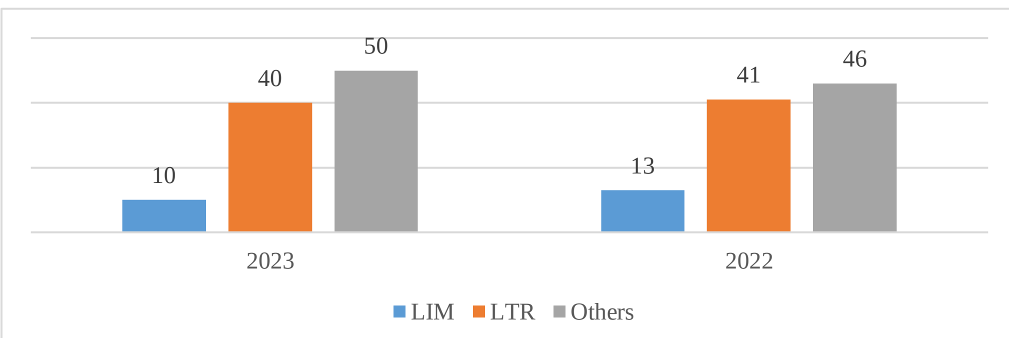


Figure 4.9 : Distribution of Export Finance during CY2023-CY 2022



Source: *Survey Data (2024).*

Figure 4.10: Distribution of Post Import Finance during CY 2023-CY2022



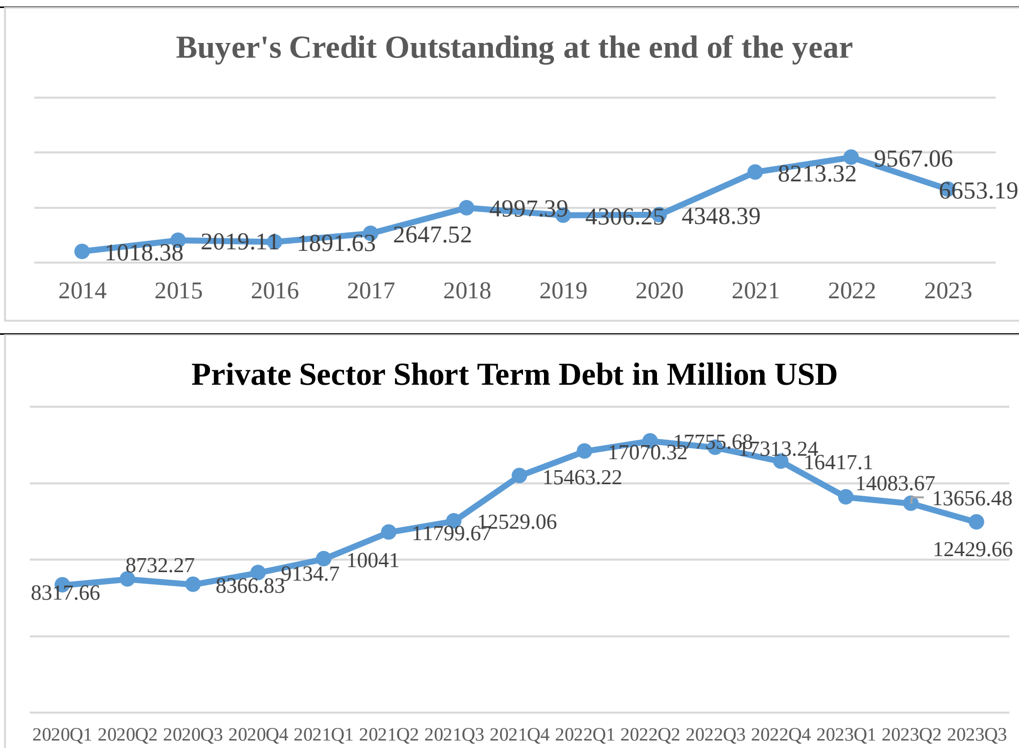
Source: *Survey Data (2024)*

Most of the import financing was in the form of LTR, as most banks do not have or avail warehousing facilities. Others mainly include UPAS usance pay at sight LC (Figure 4.10).

4.6 Short-Term Foreign Currency Credit Facilitation by Banks

Short term loan is a component of the financial account which includes buyer's credit, deferred payment, back-to-back foreign letters of credit (LCs) and short-term trade loans. Regarding activities of offshore banking units, there was consistent increase in the buyers’ credit (discounting through OBU/correspondent bank) under deferred payment credit popularly known as UPAS up to mid 2022. Total buyers credit outstanding was increasing over the years and started falling after mid-2022 (Figure 4.11). It reflects businesses’ less willingness to take short term loans due to rise in cost. Borrowing in taka became cheaper than dollar loans and there is also depreciation risk. The declinging trend in buyers’ credit also caused for overall declime in import LCs.

Figure 4.11: Buyer’s Credit Outstanding and Private Sector External Debt in Million USD

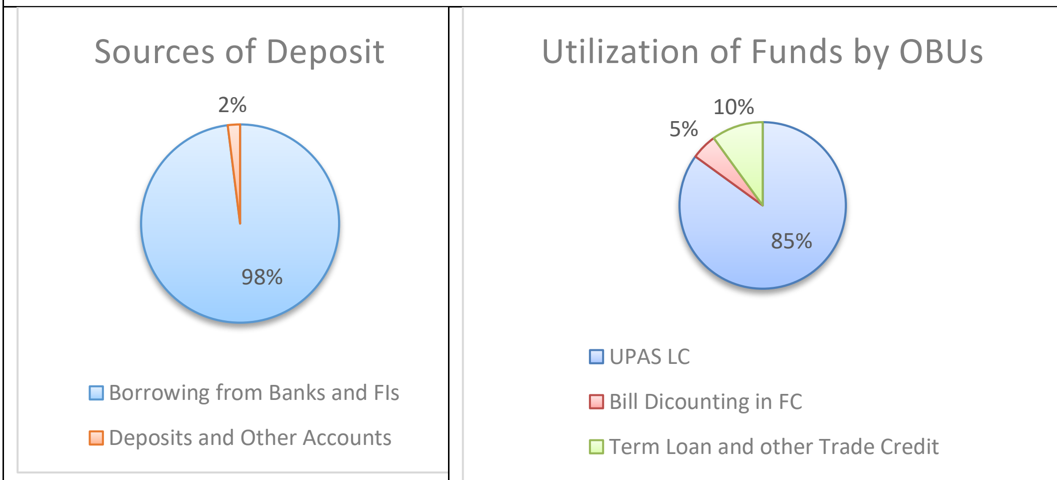


Note: in buyers’ credit, the outstanding figure of 2023 is end October.

Source: Bangladesh Bank,2024

The survey data showed notable proportion of short-term foreign currency financing in the OBUs asset portfolio; and a significant proportion of borrowing (not deposits) on the liability side (Figure 4.12).

Figure 4.12: Sources and Uses of Foreign Currency Funds by OBUs for Financing Activities

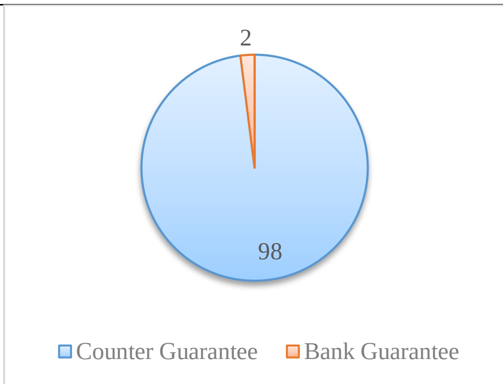
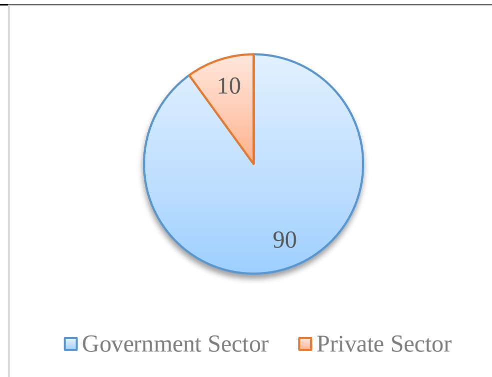


Source: *Survey Data, 2024*

4.7 International Bank Guarantees and Standby LC

The government sector is the main recipient of international bank guarantees mainly for public procurement, as observed in the survey. RMG receives bank guarantee as securities against export under documentary collection. Most bank guarantees issued were direct guarantees in 2023, and the other major type of bank guarantees was advance payment guarantees for trade purposes. Indirect guarantees are issued mainly to support government sectors. Banks are also allowed to issue indirect guarantee for Hajj purposes. Bank guarantees issued to obtain foreign loans are a relatively recent development and a potential area for the future. Now, banks are receiving good number of proposals for issuing stand by LC or international bank guarantee. Probably, it is time to adopt globally accepted guidelines, complementary local sets of rules, and capacity development of bankers to address the changing demand.

Figure 4.13: International Bank Guarantee in CY 2023

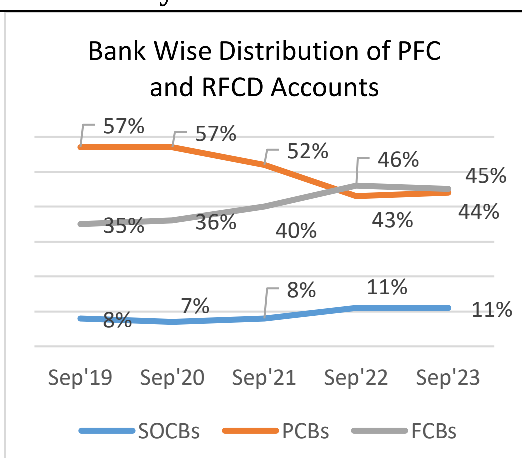
International Bank Guarantees Received by Bank	Sectoral Distribution of International Bank Guarantee
	

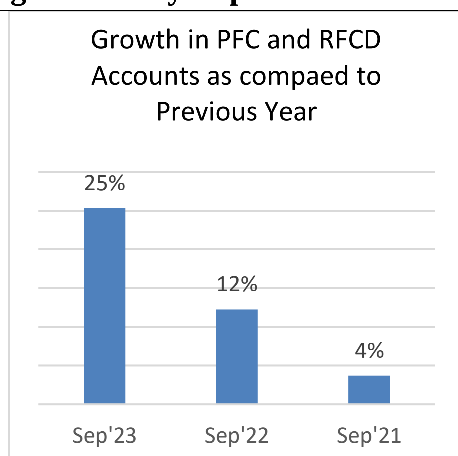
Source: *Survey Data, 2024*

4.8 Maintenance of Foreign Currency Accounts by Banks

FCBs is the dominant bank group in terms of maintenance of FC and RFCD accounts. Bigger clients common resort to the FCBs for these services (4.14). The holdings of PFC and RFCD accounts showed a decling trend for FCBs. The growth in PFC and FRCD accounts caused for relaxation in higher interest rates in those accoutnts.

Figure 4.14: Bankwise Distribution and Growth of Private Foreign Currency Account and Resident Foreign Currency Deposit Account





Source: *Scheduled Bank Statistics, Bangladesh Bank*

4.9 Human Resource Development

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 Bangaldesh has been active in offering relvent training courses. BIBM is also conducting a six-month long ertifiaction 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.

4.10 Monitoring and Reporting of Trade Services

BB has brought about major changes in traditional reporting, and offered relaxation in the context of trade services. Additional information reuirements were also added during pandemic. In a major development, the mismatch data between Export Promotion bureau and Bangladesh Bank has tremendously reduced after some regulatory intervention. Now short shipment data is uploaded in ASYCUDA by customs under ‘Standard Operating Procedure and then it is considered by EPB.

5. Issues and Challenges on the Way to Improve and Consolidate Trade Service Operations by Banks in Bangladesh

The section is to put forward certain challenges and issues before putting forward specific policy and operational recommendations for the imporvment of the country’s trade financing/services practices by banks in near future. Opinions of the KIIs were particularly useful in identifying the challnegs and issues.

5.1 Global Supply Chain Disruption and Foreign Exchange Market uncertainty Affected Trade and Trade Services of Bangladesh

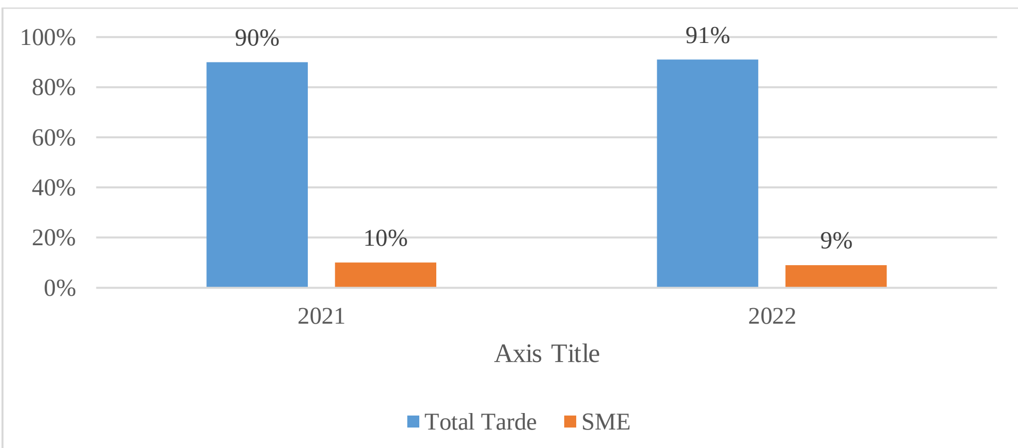
In the new normal scenario, remarkable market interventions and operational support by the government and Bangladesh Bank brought relief to the trade service-providing banks, however, uncertainty remains and continues with the global political developments, conflicts, supply chain disruptions, and foreign 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 and policymakers of the country. It is welknown 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 interventing 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 were part of these measures that are reflected in Table 5.1. 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's exports in some instances. Bangladesh Bank has been active in handling the complex situation, and the situation is improving.

Table 5.1: Status of Margin Requirement in reponse to the Policy Measures [Margin in % of LC Value Issued by Banks during 2021-2023]				
Margin Requirement	2023	2022	2021	Reasons for Changes and Impact for the Change in Trade Service Operations
LC issued without margin	10%	15%	20 %	Mainly for Govt L/C
LC issued against 100% margin	70%	40%	20%	Mainly for Commercial Import due to to regulatory changes
LC issued with margin requirement of 51 %-80%%	10%	15%	20 %	Specially Customer of Commercial Import due to to regulatory changes
LC issued with margin requirement of 30%-50%	5%	15%	10%	Mainly for Industrial Import due to to regulatory changes
LC issued with less than 20% margin	5%	15%	10%	Specially for Customer of Industrial Import due to to regulatory changes

5.2 Trade Finance Gap is Particularly Visible for SMEs of the Country

The contributions of SMEs to the country's GDP and employment generations. In 2022, it was claimed that SMEs constitute 25 percent to 27 percent of the GDP, and the sector holds 80 percent of total industrial jobs; and SME Foundation targets to raise the SME sector's contribution to the country's GDP to more than 35 percent by 2030, as part of the government's endeavour to achieve the global agenda of sustainable development goals (SDGs).[12] SMEs have notable involvement in the country's exports. RMG contributes 85 percent of total exports in the country, and of the total RMGs, 70 percent falls in the category of SMEs.[13] SMEs are the main participants in the other export sectors of the country that include jute and jute manufacturers; fish, shrimp and prawn; leather and leather manufacturing; home textile, handicraft, etc. There is consensus on the high potential of SMEs in export promotion and diversification, and common agreement on the necessity of addressing their operational and business challenges. 'Limited access to finance' has been a recognized challenge for SMEs, and national policy documents, and Bangladesh Bank's financing policies and programs have been addressing the issue since long. The gross approach however, does not distinctively point to the trade financing that is inherently different in terms of risks, regulations, and documentation. Despite consistent policy efforts, 'inadequate access to finance' remained a recognized challenge of the SMEs of the country, and the 'SME trade-finance gap' as a separate agenda appeared to be out of the expected attention and policy focus.

Figure 5.1: Average CMSME Trade Finance out of Total Trade Financing



Source: Habib et.al., 2023

[12] https://www.tbsnews.net/economy/smes-contribution (The Business Standard June, 2022).
[13] https://www.textiletoday.com.bd/small-rmg-factories-find-difficult-survive

According to the survey data (Habib et.al, 2023), of the total trade finance of the banks, only 9 percent was offered to SMEs in the year 2022, which was around 10 percent in 2021 (Figure 5.1). This is relatively lower than the overall proportion of CMSME loan figures in the country. According to the BB published data, total CMSME loans for March 2023 was around 19 percent of the total outstanding loans. 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 (Habib et.al, 2023). The challenges of women appear to be even higher.

5.3 Sanctions have Notable Implications for Trade and Trade Financing

It is obvious that impacts of the economic sanctions like deceleration in economic growth, increase in the income and poverty gap, hazard on women, decrease or relocation of the cross-border trade, increase in cost of exportable or importable and transportation, etc. have notable implications for all global economies including Bangladesh. Economic sanctions have direct and indirect impacts on the country's business and investment environment and thus have implications for internal supply chain and low-income segments. Following cases indicate a glimpse of the nature of impacts the traders/individuals[14] are confronting in addressing UN and OFAC sanctions (Mini cases 5.1 to 5.2).

Mini Case 5.1: Fund Blocked subject to Sanction

B Airlines approached Q Bank Ltd., a Bangladeshi bank, with a request to transfer USD 500,000.00 to an account held at a United Kingdom (UK) bank. However, the beneficiary associated with the UK's bank account was linked to Iranian Aviation, an entity subject to OFAC sanctions. Upon receiving the instruction, Q Bank Ltd. transmitted the SWIFT message to the UK's bank. During the sanction screening process, the UK bank detected the presence of the sanctioned entity in the SWIFT message and promptly blocked the funds. As a result, the entire amount of USD 500,000.00 became blocked.

Note: *Habib et.al, 2023 (unpublished).*

[14] Individual named under sanction from Bangladesh faced difficulties with opening and maintaining accounts; cross-border financial transactions; and social pressure.

Mini Case 5.2: Customer Impacted due to Sanction Breach

A jute exporter enters into a contract with a Dubai-based buyer to export jute products for USD33,000.00 under documentary collection on Deliver documents against Payment basis. The exporter submitted documents to the remitting Bank in Bangladesh. While performing the name screening, the vessel's agent was hit under sanction. The processor forwarded the issue to level two. Level two further performed sanction screening and confirmed it was truly matched. Then Level Two escalated the issue to Level 3. Level 3 rejected the transaction and initiated SAR reporting to BFIU. The remitting Bank refuses to handle the transaction further. From the exporter's perspective, the goods have already been shipped. Therefore, the exporter faced financial loss. Furthermore, when Bank deep dive into the transaction, it found that the goods are shipped to Bandar Abbas, not UAE. In connivance with the exporter, the shipping line issued a bill of lading, where both the port of loading and port of discharge was mentioned as an intended port of loading and intended port of discharge as opposed to the specific port of loading and port of discharge. The remitting Bank collected the International Maritime Bureau report. The report revealed that all information in the bill of lading related to the port of loading and port of discharge was false. The exporter faced both financial and non-financial losses.

Note: *Habib, et al, 2023 (unpublished).*

5.4 Cash Incentives Reduction, Disbursement and Associated Challenge

The government of Bangladesh has been providing cash support to the export sector-ranging from one percent to 20 percent to enhance competitiveness in the international market. Bangladesh has announced plans to reduce incentives for all export items as it prepares to graduate from Least Developed Country (LDC) status in 2026. The country has met all three criteria for graduation, including per capita income, human assets index (HAI), and economic and environmental vulnerability index (EVI). The government has opted for a gradual reduction of export incentives. In a move to adapt to changing global economic dynamics and LDC graduation, policymakers in Bangladesh recently announced significant changes to the country's cash assistance rates for various export items. In 2024, Bangladesh Bank[15] adjusted these rates. The adjustments include a reduction in cash assistance for key goods such as apparel, furniture, plastic products, software, and motorcycle shipments. Only businesses with specific types of export items-such as diversified jute products, vegetables, fruits, agro-processing, potatoes, and halal meat and

[15] FE Circular -05, 1 February, 2024

processed meat-will get the new highest rate of 15 percent. The adjustments may diminish their ability to compete effectively in the global market, particularly when shipment costs are going up.

Cash incentives are allowed against LC, contract, and advanced payment as per the guidelines mentioned in the GFET-2018 (Vol-1) Appendix. 6(2). It is the responsibility of the banker to verify the authenticity of the export proceeds and all conditions in case of advanced payment. However, sometimes proceeds received through the exchange house are not eligible for incentive. The bankers complete the formalities to disburse cash incentives in line with the regulations. In some instances, unfortunately, the Customs Department has found several loopholes that many exporters are exploiting to take advantage of the government's cash incentives. These malpractices involve laundering funds through trade-based money transfers and making declarations of fictitious exports. Some unscrupulous businesses have been orchestrating fake export schemes to pocket a 20% government incentive for the export of agricultural products illegally.

The Export Promotion Bureau (EPB) has taken notice of such malpractices and has frozen a few fraudulent export earnings. These fake exports bring in export proceeds, but in reality, no products are shipped as they are done only on paper. This has made many bankers accountable to the Anti-Corruption Commission, which is undesirable (opined in the KIIs conducted with selected bank executives). The banks are the agents for disbursing cash incentives, and they disburse the cash only after verifying the bill of export, commercial invoice, EXP, bill of lading, Proceed Realization Certificate, and Bangladesh Bank's Online Export Monitoring System (OMES) against the exported consignments. All parties related to the disbursement of cash incentives are jointly accountable in this regard. In this context, commercial banks should have specific and limited accountability, as opined in the KIIs with the bankers.

5.5 Risk Management, Credit Risk and Concerns on Back-to-Back Letter of Credit

Risk management became particularly relevant in the expanding trade and trade finance. Credit risk management has been challenging for the banking industry of Bangladesh. Non-performing loan (NPL) have been the major challenge for the banking industry, and all key stakeholders are struggling to address the challenge. The volume of NPL in the trade finance of the country seems to be at per with that of the overall banking average (as opined in the KIIs of banks). If this is the fact, then the country’s NPL in trade finance is truly higher in terms of global standard (globally NPL in trade finance is relatively lower). However, separate data are not available to identify the true size of the trade finance-related NPL in the country. Loan against trust receipts (LTR), and back-to-back credits are believed to be the main sources of NPL in trade finance.

Back-to-back LC appeared to be an area of concern to many. It is well-known that central bank regulations allow for the opening of back-to-back LCs against export LCs. However, exporters must have bond licenses for such imports under back-to-back arrangements. Inland back-to-back LCs can also be opened in compliance with the same regulations in favor of manufacturer-suppliers. It is known that banks are now allowed to open back-to-back LCs against sales contracts, and the volume is increasing rapidly. There are however concerns that in several instances, back-to-back facilities are misused by certain sections of business people, and in most instances banks are sufferers (Based on KIIs). Delay payment in local back-to-back LC is common, as claimed.

The necessity of effective risk management in trade finance has rightly been identified as part of the initiatives of LDC graduation. Recently, the Economic Relations Division (ERD) undertook a Research Initiative with the support of the UNDP (Box 5.1)

Box 5.1: Project on Trade Finance Risk Managemnt by ERD, GoB and UNDP

The government of Bangladesh (GoB) has started developing a roadmap on how the country will manage the challenges associated with LDC graduation. The increasingly complex cross-border trade landscape necessitates a comprehensive understanding of trade finance risk management practices. Bangladesh, as a developing economy, is a significant participant in global trade, and to ensure sustainable economic growth and financial stability, it is essential to assess the current state of trade finance risk within the country, develop a trade finance risk management framework, identify vulnerabilities, and develop a roadmap for improvement. The study aims to assist the Government of Bangladesh (GoB) in developing a trade finance risk management framework, identifying vulnerabilities, and creating a roadmap for improvement. The primary objective of this study is to conduct an in-depth analysis of trade finance risk management practices in Bangladesh. This involves identifying challenges, and opportunities, and drawing best practices from other peers. ERD and UNDP have jointly initiated a timebound and praiseworthy project named Knowledge for Development Management (K4DM). In this project, trade finance risk management has explicitly focused in order to mitigate the contemporary trade financing risk.

5.6 Technology Adoption in Trade Financing and Associated Challenges

Banking heavily relies on technology nowadays, so it is expected that banking activities can be carried out from a central location using appropriate technology. For better service and higher business volume, some banks maintain multiple central processing locations. The two perspectives of trade centralization are interlinked, one is trade operation, and the other is ensuring trade compliance. To provide faster and quality services to foreign trade clients, many banks operate CTPUs comprising experienced foreign trade officers. Additionally, CTPUs handle the foreign trade business of Non-AD branches of banks by opening all forms of LC, issuing special guarantees, transferring LC, purchasing and negotiating foreign export documents, handling all forms of private and commercial remittance, and reporting all foreign exchange buying of Non-AD branches to BB. Using CTPUs ensures quick service delivery, and operational control, and enhances governance oversight. However, to ensure sanction compliance and AML guidelines as well as deter financial crime, some banks have centralized only non-ADs. In cases where whole trade services are centralized, compliance can be ensured.

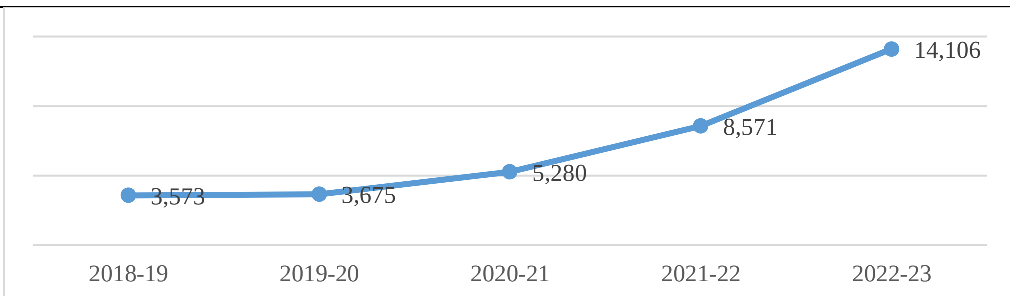
Digitalization of trade documents would be a necessity in the near future. Upgrading to an Electronic Bill of Lading process brings substantial benefits to all parties in the logistics chain. It reduces the time spent on manual documentation, lowers the risk of errors, and enhances the security of data, making logistics operations more streamlined than ever. In the context of Bangladesh, several banks of the country are experimenting with the creation of modern technology-driven trade finance products (Box 5.2).

Box 5.2: Examples of Technology Experimentation in Trade Finance in Bangladesh
-Standard Chartered Bank in Bangladesh has 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. EBL has implemented a digital archiving process. They organized a team to work on converting physical papers to electronic documents and uploading them to the archive. Another group examines the e-documents and remarks on the compliance of the documents presented.
Source: *Habib et.al, 2021*

5.7 Addressing TBML, Challenges of Price Verification, and Vessel Tracking

According to the BFIU recent report, it received 14,106 suspicious reports in 2022–2023, of which 9,769 were STRs and 4,337 were SARs. Over the course of the last five years, BFIU has received STR & SAR on a continuous rising trajectory, with 2022–2023 seeing a notable rise of 64.58 percent in comparison to the previous year (Figure 5.2) . This significant increase can be ascribed to a number of important elements, such as the government's zero tolerance policy against corruption, ML & TF, the BFIU's strict measures against non-compliance, and the ROs' enhanced knowledge and capacity development. The notable upward trend was also brought about by a rise in fraudulent activity on internet-based platforms, including digital hedge funds, online gaming and betting, and FX and cryptocurrency trading. Mini cases (5.3, 5.4, 5.5) indicate the nature TBML as identified by BFIU.

Figure 5.2: Trend of STR & SAR Received by BFIU



Source: BFIU Annual Report, 2022-23

Mini-Case 5.3: Smuggled money abroad through the means of over invoicing in importing capital machinery from their own company abroad
Bank opened LCs at the request of a ceramic company in Bangladesh in favor of two beneficiaries in Hong Kong and China to o import capital machinery valuing total USD 0.337 million. HS Code of the product mentioned in commercial invoice was found completely different from HS Code mentioned in the Bill of Entry. The price of imported product appeared to be much higher even compared to price shown in the open source of price verification. Later it was revealed that owners of the ceramic companies had significant ownership in the foreign companies of Hong Kong and China.

Mini-Case 5.4: Embezzlement of Cash Incentive against Fake Export Orders of potato
Two exporters, Anando Traders and Bondhon Traders, exported approximately BDT 515 million and against which they received around BDT 103 million as cash incentives. All export payments were executed through advanced Telegraphic Transfers. Some payments were made through third-party entities (remittance houses and money changers) from a third country. The nature of business of the importers was entirely unrelated to exported goods. Goods were sent to 4 countries with significant Bangladeshi immigrants. There were suspicions that exporters might have been collecting remittances from Bangladeshi nationals residing in those countries and presenting this remittance as part of the export value to Bangladesh. Consequently, they received a 20% cash incentive based on this misrepresented export value.
Source: *Source: BFIU Annual Report, 2022-23*

Mini-Case 5.5: Smuggling Money Abroad Using Shell Bank
11 banks in Bangladesh received 26 LCs from a shell bank in Dominica for exporting readymade garments. hose LCs were advised by two local banks, which had Relationship Management Application (RMA) with that shell bank. USD 3.47 million of which USD 0.97million became overdue. A total of USD 2.50 million was repatriated from third parties whose nature of business was different from that of the exporters. The relationship between the importer and the remitter was not clear. Few payments against export came from third countries like-Saudi Arabia, Slovakia, Hong Kong, Singapore, etc. though the goods were exported to USA. No export proceeds were repatriated through LC issuing bank
Source: Source: *BFIU Annual Report, 2022-23*

Independent Price Verification[16] 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.[17] To mitigate the risk of trade-based money laundering, acquiring a price verification tool is an effective solution. 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. The GTT platform offers a suite of powerful analysis tools that give access to the official trade statistics of 201 countries, including data from both the world's principal trading countries as well as harder-to-source data from developing

[16] According to FE Circular letter No.36, dated October 10, 2022, from Bangladesh Bank, authorized dealers (ADs) are required to verify prices of goods in terms of the prevailing market prices before initiating import transactions. This circular also mentioned that banks should ensure imports at the maximum market competitive rate, as per paragraph 20, chapter 7 (GFET) and chapter 2 of Import Policy Order 2021-2024.

[17] Reportyed in The Daily Star on November 15, 2022

and upcoming trading 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 price verification tool is expected to help the banks to comply with anti-money laundering regulation by providing an automated and systematic approach to monitor trade transactions and identify potential red flags. 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.[18] A few banks (as claimed)[19] use the full version of a reputed software, including container tracking, transshipment, and sanction area identification, among others. Other banks use various software solutions for vessel tracking.

5.8 Effective Compliance, Regulatory Reporting and Dispute Settlement

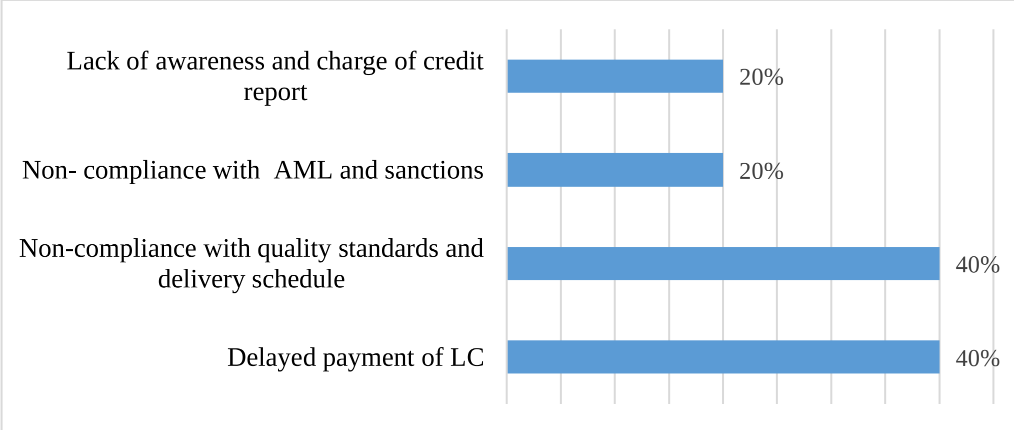
Ensuring huge compliance and checks and balances remained challenging in most trade finance-providing banks. In most instances, trade-related compliances are handled by the trade officials only which might be a source of check and balance. Certain regulatory reporting challenges remained valid for banks (Box 5.3). Banks are coming across different disputes related to trade finance (as identified in the questionnaire survey) that would indicate the nature of challenges as well (Figure 5.3).

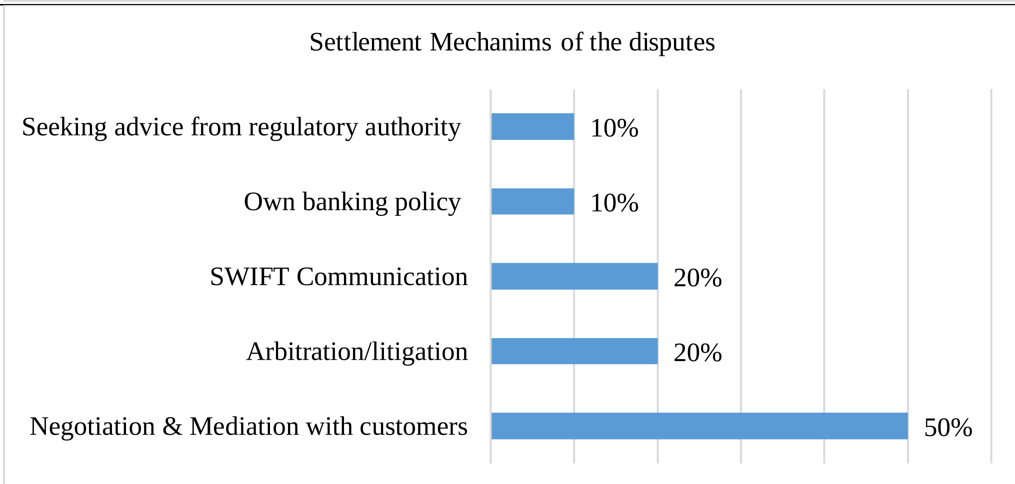
Box-5.3: Challenges of Regulatory Reporting
-Lack of skilled reporting bank officials and frequent transfer of reporting officials are key challenges to getting accurate and timely reporting. -Lack of coordination between different departments of banks and inadequate understanding of the forms in which bank officials fill up the data are challenges for quality reporting, for instance, data of the same parameter is reported differently to the different departments of the BB. -Lack of concentration on the objectives and implications of reporting at the management level of banks is also a barrier to quality data compilation by the BB. -Avoiding duplication of regulatory reporting on the part of the central bank would be helpful for banks. ***Note:*** *Based on KII with bankers and regulators*

[18] The screening of export shipments through vessel/container tracking systems recognized by competent authorities is now mandatory, as outlined in FE Circular No. 07 dated April 20, 2022; and it has also been decided that authorized dealers must track shipments for relevant import transactions to ensure the safe importation of goods. This directive is outlined in FE Circular No. 09 dated May 17, 2022.

[19] Dhaka Bank PLC and Citibank N. A. use full version of Lloyd's List Intelligence interactive online service that provides detailed vessel movements, real-time AIS positioning, and information on ships, companies, ports, casualties, credit reports, industry data, and analysis.

Figure 5.3: Types of disputes usually experienced by bankers or traders





Source: *Survey Data*

Discussion with senior bankers and selected traders (exporters and importers) came up with their opinions that complement/supplement the above metioned challenges and issues, and draw attention to the policy recommendations (Box 5.4).

Box 5.4: Summary Outcome [Issues/Challenges] of Discussions with Bankers and Traders

-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 days 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.

-Repatriation of export proceeds must be given due emphasis. Steps must be taken to ensure that export proceeds are realized in a timely manner compared to other countries authorities. All stakeholders (banks, regulators, government agencies, embassy/mission) in this regard must ensured proper cooperation among themselves.

-If any EXP is overdue, the exporter cannot claim cash incentive along with EDF facilities. But he/she can further export through the issuance of another EXP. In this case, he/she also fails to realize export proceeds. In this regard, uniform guidelines may be formulated to bar such exporter.

-Central banks and all the banks act as agents of the government to disburse cash incentive. Cash incentive disbursement procedure should be simple and along with ensure transparency in the context of disbursement.

-Export Promotion Bureau (EPB) calculates export proceeds based on shipment value. Conversely, the Bangladesh Bank formulates balance of payment statements and calculates reserves based on exports received through banking channels. So there is a difference in value of export proceeds. There should be a uniform data base in this regard.

-Contract has to be legally enforceable. In this regard, for binding and legally enforceable sales contracts, Bangladesh should ratify international conventions.

-There should be an integrated data base taking into account the data provided by Bangladesh bank, different ministries of government and customs authorities. This data base will ensure price verification and prevent over invoicing and under invoicing along with different tools of price verification (price verification software like GTT).

-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.

-In the case of export, subcontract has made against contract. But in our contract act 1872, there is no provision in this regard. In UCPDC, article 38, there is an option of transferable LC. But under contract, there is no rule of subcontract.

-Training and awareness program must be arranged for the customers both on domestic (trade policies, GFET other important provisions) and international regulations along with their changes and revisions.

6. Suggested Steps for Strengthening Trade Services by Banks

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

Two, Extensive use of documentary credit has its inherent advantage of identifying and protecting TBML. However, cost concerns can not be avoided. Considering TBML perspectives and managing country risk, the documentary collection is a better option than open account. The circular on 'Conditional Open Account' issued in June 2020 also maintained the similar spirit of handling country risk in the export transactions of the country. To date, the responses to the initiative are very insignificant. Ensuring legally enforceable contract would be supportive to move to the open account. At this stage, open account may be tested for certain limited amount with specific qualifications. Further awareness and familiarity amongst bankers and traders are required on the multiple product dimensions of the circular. For having a balance between cost minimization and handling country risks, documentary collection may be particularly encouraged. Local LCs should be replaced with documentary collection to avoid reputation loss.

Three, **the** Goevrnment and the Central Bank of Bangladesh have announced reduction of incentives for all export items as it prepares to graduate from Least Developed Country (LDC) status in 2026. In a move aligned with changing global economic dynamics and LDC graduation that include a reduction in cash assistance for key goods such as apparel, furniture, plastic products, software, and motorcycle shipments. It is time when such direct incentives would hardly be allowed, and non-financial incentives would have to play roles. Policymakers and businesses need to substitute such support with greater productivity for competitiveness. Regarding disbursement of cash incentives and compliances, banks' accountability may be rationalized with specific responsibilities.

Four, 'Sound Compliance Framework' in banks is a good governance element, and sanction compliance issues should get nod from the board for having the right kind of operational arrangement, structure, and human resources that need huge investments. Senior management should be adequately convinced and empowered both from the board and regulator to delegate sufficient authority and autonomy to deploy sanction-related policies and procedures in a manner that effectively controls the organizations' sanction risks by employing core elements of compliance management program covering risk assessment, know your customer, sanction screening, enhanced due diligence, training and awareness, and monitoring. 'Over compliance' or excessive avoidance of risk is damaging for businesses and human rights to be considered by the regulator and the banks. Thus the regulator and banks should carefully review the actual compliance requirements to adjust their compliance to exclude, to the extent possible, any over-compliance. To ensure check and balance, trade compliance should be independent of trade operations.

Five, SMEs are not distinctively treated in the trade finance policy and operational fronts in Bangladesh. The policy approach on SMEs or CMSMEs seems to target their progress only within the national boundary and trade finance issues receive very limited attention as a distinct area to address. At the operational level, banks' CMSME treatments also include mainly domestic credit facilitation. Special desks and products are designed to target SME traders which is not the case with trade finance. The trade finance gap of SMEs can hardly be minimized by such generic treatment of issues. 'Trade Finance to SMEs' must be treated differently and distinctively both on policy and operational fronts to handle the SME access of 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. For policy and operational effectiveness, coordination among the policymakers (within the regulatory setting) and operational bankers (within the bank) associated with CMSMEs and trade financing is a crucial need.

Finally, Trade finance risk management needs further attention to deal with credit risk, operational risk, and environmental risk. Existing LTR and back-to-back LC risk management processes should come under extensive regulatory scanner for effective risk management. Currently, NPL data on trade finance are not captured separately by banks or the Central Bank. It is a necessity as part of credit risk management in banks. Technology adoption and capacity development are directly associated with operational risk management in trade financing. Centralized trade offer better outcomes, and banks need to invest more in the area with adequate policy support. In the area of capacity development, traders (exporters and importers) are particularly vulnerable. 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. Central Bank and policymakers need to prepare for that.

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Appendix table: Summary of FEPD Circulars and Circular Letters Issued during CY 2023	
FEPD Circular Letter No. 01: Long Term Financing Facility (LTFF) under the Financial Sector Support Project (FSSP) Date: January 16, 2023	Bangladesh Bank has raised the interest rate regarding Long Term Financing Facility (LTFF) under Financial Sector Support Project (FSSP). an indicative pricing range of 3.0 to 4.0 per cent would be applicable to the Participating Financial Institutions (PFIs) until further notice. the interest rates at 3.0 per cent, 3.25 per cent and 3.50 per cent will be applicable for banks having CAMELS Rating of 1 (One) for five, seven and ten years respectively. The rates for banks having CAMELS Rating of 2 (Two) will be 3.25 per cent 3.50 per cent and 3.75 per cent for five, seven and ten years respectively. On the other hand, the rates will be 3.50 per cent 3.75 per cent and 4.0 per cent for banks having CAMELS Rating of 3 (Three) for the same periods of time.
FEPD Circular No. 03: Enhancement of limit for declaration on Form-C against inward remittances Date: February 22, 2023	For facilitating inward remittances declaration on Form-C shall not be required for inward remittances up to 20,000 US dollar or its equivalent in order to facilitate inward remittances
FEPD Circular Letter No. 02: Retention quota accounts for export of software, ICT and other services Date: February 05, 2023	In order to facilitate ICT companies, freelancers and other cross border service providers to bring their income in foreign currency into the country, ADs are advised to provide ERQ account services to service exporters so as to enable them to carry out remittance transactions from these accounts along with to issue international credit/debit/prepaid cards for nominated officials of companies, and freelancers against the balances held in their ERQ accounts for online payments abroad against bonafide requirements. Non-ADs providing banking services to freelancers shall make arrangements with nearby ADs/CTPCs/head offices/principal offices for opening ERQ accounts and issuing international card.
FEPD Circular No. 02: Interest rate on borrowing from Export Development Fund (EDF) Date: February 01, 2023	Interest rate on EDF loans to ADs will be charged by Bangladesh Bank at 3.00% pa, while ADs will charge interest to manufacturer-exporters at 4.50% pa; for disbursements until further instructions
FEPD Circular No. 01: Inward Remittance-Declaration on Form-C Date: February 01, 2023	ADs may receive Form-C through electronic means. In this regards, ADs shall have secured electronic communication channels, preferably designated 'app' for Form-C under internet banking network, with customers in order To facilitate smooth transactions.
FEPD Circular No. 05: Repayment of loans availed from Export Development Fund (EDF) Date: March 19, 2023	hat penal interest (compensation in case of Shariah based Islamic Banking) will be charged by Bangladesh Bank to ADs at 4.00% pa above the prevailing interest rate on overdue amount of EDF loans for the delayed period.
EPD Circular No. 04: Realization of export proceeds	In cases of delayed realization, ADs shall apply prevailing exchange rate for encashment into Taka but

Date: March 06, 2023	shall make payments to exporters applying the rate on the date at which the export proceeds should have been realized as per above regulatory instructions.
FEPD Circular No. 07: Interest rate on borrowing from Export Development Fund (EDF) Date: April 03, 2023	In case of extension of tenure beyond 180 days, the interest rate prevailing at the time of such extension will be applicable for the extended period.
FEPD Circular No. 06: Ceiling against borrowing from Export Development Fund (EDF) Date: April 09, 2023	Reset the ceiling to USD 10.00 million from USD 15.00 million for input procurements under back to back LCs (BBLCs) against relevant export orders. The limit for imports under BBLCs by individual member mill of BGMEA and BKMEA is set at USD 20.00 million and USD 15.00 million respectively in order to bring wider range of customers for EDF loans
FEPD Circular Letter No. 04: Clarification of "Digital Marketing" and "Advertisement Broadcasting" according to section 56 of Income Tax Ordinance 1984 Date: May 08, 2023	There is a clarification of "Digital Marketing" and · "Advertisement Broadcasting" according to section 56 of Income Tax Ordinance 1984.
FEPD Circular Letter No. 03: Performing Hajj 1444 Hizri/2023 under Government and Private Management Date: May 05, 2023	Pilgrims will be able to carry a maximum $1,200 or its equivalent to other foreign currencies, excluding their total Hajj expenses.
FEPD Circular No. 11: Extension of usance period against imports of industrial raw materials Date: June 26, 2023	Extension of usance period to 360 days from 180 days for imports of industrial raw materials including back to back imports, and imports of agricultural implements and chemical fertilizers under supplier's/buyer's credit valid 31st December 2023
FEPD Circular No. 10: Maintenance of foreign currency (FC) accounts for foreign investment Date: June 21, 2023	Authorized Dealers (ADs) may retain foreign currency sent by foreign investors to invest in Bangladesh. In this context, ADs may open FC accounts in the names of local companies which will issue shares in compliance with regulatory instructions in order to facilitate transactional needs in foreign exchange
EPD Circular Letter No. 05: Requirement of membership with relevant association for money changing operations Date: June 01, 2023	To streamline the operations of money changing business, it is necessary for licensed MCs to be a member of relevant association representing the sector. Accordingly, Money Changers operating in Bangladesh are hereby advised to be a member of relevant association within June 30, 2023.
FEPD Circular No. 12: Discount claims against export trade Date: July 16, 2023	ADs may submit applications for discount claims against export of leather goods and footwear produced from leather to Discount Committee through Foreign Exchange Policy Department at Bangladesh Bank, Head Office in compliance with usual formalities and procedures.
FEPD Circular Letter No. 06: Export subsidy against export of Software, ITES and Hardware Date: June 13, 2023	To articulate the procedure to claim Export subsidy against export of Software, ITES and Hardware

FEPD Circular Letter No. 08: Compliance of Income Tax Law, 2023 instead of Income Tax Ordinance, 1984 Date: July 26, 2023	Compliance of Income Tax Law, 2023 instead of Income Tax Ordinance, 1984 has enacted
FEPD Circular Letter No. 13: Revised Pricing terms of USD and EURO financing under Green Transformation Fund (GTF). Date: July 26, 2023	Given the global context of LIBOR cessation/discontinuation from 30th June, 2023 and rising interest rate trend in US Dollar and EURO financing globally, the pricing terms of US Dollar and EURO financing from Green Transformation Fund (GTF) has been fixed at 5% p.a. (Bangladesh Bank's margin 2% p.a. and ADs mark-up 3% p.a.).
FEPD Circular Letter No. 12: Forward sale and purchase in foreign exchange Date: July 26, 2023	ADs may apply forward premium not exceeding SMART+5 percent per annum with declared spot rates for forward dealing. This is to clarify that the above forward premium shall only be applied in forward sale for import payments not exceeding for 3 (three) months
FEPD Circular No. 16: Forward sale and purchase in foreign exchange Date: July 26, 2023	To maintain orderly discipline in foreign exchange market, it has been decided that ADs may apply forward premium not exceeding SMART + 5 percent per annum with declared spot rates for forward dealings with customers and/or relevant counterparts.
FEPD Circular No. 15: Reinstatement of limits of Exporters' Retention Quota (ERQ) accounts Date: July 04, 2023	the retention limit out of realized export proceeds of ERQ to 7.5 percent, 30 percent, and 35 percent from 15 percent, 60 percent and 70 percent respectively.
FEPD Circular Letter No. 11: Inward wage remittances by licensed Payment Service Providers (PSPs)	Licensed PSPs (Payment Service Providers) will be also allowed to repatriate wage earners' remittance in association with internationally recognized online payment gateway service providers (OPGSPs)/banks/digital wallets/card schemes and/or aggregators abroad (hereinafter referred to as approved/licensed foreign payment service providers, foreign PSPs)
FEPD Circular Letter No. 9: Settlement of import liabilities out of export proceeds	The retained fund shall be useable only by designated ADs for settlement of bonafide payment obligations of relevant exporters. ADs shall, with immediate effect, refrain from transferring the fund to other ADs. In case of the fund remaining unused, ADs shall encash the same compulsorily in Taka just after expiry of admissible period of 30 days
FEPD Circular Letter No. 18: Realization of Export Proceeds October 30,2023	export proceeds are allowed to be encashed in the prevailing exchange rate. This flexibility shall remain valid till December 31, 2023.
FEPD Circular Letter No. 16: Settlement of import liabilities out of export proceeds. October 087,2023	The retention facility of the value added portion for 30 days is applicable, vide FE Circular Letter No. 32 of September 06, 2022, for exporters producing outputs against procurement of input contents under BBLCs as stipulated in paragraph 42(i), chapter 7 of GFET. However, the transfer facility of retained value added portion is ceased through FE Circular Letter No. 09 of September 04, 2023

FEPD Circular No. 17: Inclusion of the name of BSTMPIA for issuance of certificate for cash incentive under new market exploration assistance October 01,2023	Articulate the inclusion of the name of BSTMPIA for issuance of certificate for cash incentive under new market exploration assistance
FEPD Circular No. 19: Maintaining FC accounts by resident Bangladeshis and others with Offshore Banking Operations Date: November 29, 2023	Resident outside Bangladesh without limiting to non-resident Bangladeshi nationals, persons of Bangladeshi origin, foreign nationals, companies/firms registered and operating abroad, foreign institutional investors may open and maintain FC accounts in approved foreign currency with OBOs.
FEPD Circular No. 21: Extension of usance period against imports of industrial raw materials. Date: December 14, 2023	Extension of usance period to 360 days from 180 days for imports of industrial raw materials including back to back imports and imports of agricultural implements and chemical fertilizers under supplier's/buyer's credit upto 30^{th} June 2024
FEPD Circular Letter No. 19: Wider scope in operations of Resident Foreign Currency Deposit (RFCD) accounts Date: December 03, 2023	Wider scope in operations of Resident Foreign Currency Deposit (RFCD) accounts LIKE The balances held in the accounts are freely transferable abroad, including onward foreign travels by account-holders, Account-holders can avail International Debit/Credit/Prepaid Card against the balances held in RFCD account, RFCD accounts may be opened in any approved foreign currency such as USD, EUR, GBP, JPY, AUD, CAD, CHF, CNH and SGD and Interest/profit will be payable on the deposits maintained for minimum one month at mark-up of 1.50 percent over benchmark rate of respective currencies

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