

## Financial Intermediaries and Trade Facilitation in South Asia

### Background & Context

The financial regulatory authorities in various South Asian countries have been indifferent to trade finance needs and hardly attend to the problems faced by traders on account of default on payments and other aspects of trade finance. Many a times the principal financial instrument issued against a trade transaction, 'letter of credit', by banks in one country, is not honoured by banks in another due to lack of obligations on mutual recognition between them.

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In addition, examples of payment defaults due to banking frictions, delays in clearance of guarantees issued against consignments and loss due to non-acceptance of Line of Credits have had a spiralling effect on deceleration of trade in high

potential sectors. Though trade in high potential sectors does take place between select groups of partner firms, it has not expanded beyond a minimal level because of several reasons, payment risks being one of the most prominent ones among them. Lack of trusted payment modes and channels increases the transaction costs of firms and, thus, pose as a serious obstacle to cross-border trade.

The purpose of this project is to generate awareness on issues related to trade-related financial services which affect bilateral trade and to explore trade opportunities that can be realised by addressing such issues, generating welfare outcomes for Bangladesh, India and Pakistan.

### Goal & Objectives

The goal of the project is to instigate policy reforms for betterment of trade-related financial services and thereby contribute to increase in trade volume between India and Bangladesh, and India and Pakistan in sectors with high trade potential which are affected by issues of trade finance and payments.

Specific objectives of the project are to:

- work towards a mutual recognition agreement between India and Bangladesh on trade-related financial (banking) services to facilitate trade transaction and a similar mutual recognition agreement between India and Pakistan; and
- facilitate initiation of at least one new trade-related financial services instrument by India and Bangladesh, and India and Pakistan for qualitative and quantitative

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improvement in their cross-border trade in high potential product lines.

## Activities & Outputs

In order to achieve the objective of improved trade financing services this project plans to implement to two broad sets of activities. They are as follows:

- Focused Meetings between and among Acting and Pressure Groups
- Endorsements by Pressure Groups

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CUTS project team will act as a facilitator by identifying groups, and mediating and guiding meetings between Acting and Pressure Groups. Acting Groups will consist of a select group of senior administrators from among

service providers (banks) and senior level officials belonging to financial service regulators, the Pressure Group will consist of a select group of clientele belonging to high potential sectors and a larger set of stakeholders – key institutions and organisations which are deeply concerned and can be incentivised for better trade financing services and products.

While the Acting Group will be directly responsible for the reforms that are required (betterment of trade financing services), the role of the Pressure Groups is to exert necessary external influence needed for the actions of Acting Groups.

The focused meetings will focus on:

- Stocktaking of issues associated with trade financing and to frame a statement of demand for improved services
- Reconciliation of the concerns of the demand and supply sides of better trade finance services and products
- Framing and adoption of an action plan with the consent and approval of the regulatory authorities

The specific outputs of the project will be declarations and statements from the focused meetings between Acting Groups and joint memoranda by the Pressure Groups and their endorsement by a select set of policy champions from India, Bangladesh and Pakistan.

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## Expected Outcomes

The project will pave the way for policy reforms for the betterment of trade related financial services, making them accessible for traders and thereby fostering trade between Bangladesh, India and Pakistan.