

Focused Meeting between Clientele Group
On
“Lack of Reliable and Fast Payment Options to Facilitate Trade Transactions in South Asia”

20 February, 2014

New Delhi, India

Report

1. Introduction

1.1 CUTS International is implementing the project titled “Lack of Reliable and Fast Payment Options to Facilitate Trade Transactions in South Asia” with support from The Asia Foundation. The first activity, Focused Meeting between Clientele Group, was held in New Delhi on 20 February, 2014. The objective of the meeting was to raise the demand for improved financial services by the selected clientele group including apex industry organisations from Bangladesh, India and Pakistan.



2. Welcome

2.1 Joseph George, Policy Analyst at CUTS International, explained the work CUTS does on regional economic cooperation in South Asia and specifically on NTBs affecting regional trade. He introduced the project and shared some observations on why issues related to trade payments gets underrepresented in regional discourse on trade reforms in general. Formal regulations and reform measures are needed on the matter. With the objective of initiating reform proposals in this specific area, CUTS is conducting three meetings under the project between the representatives of the banking sector, the industry and relevant policy making bodies.



2.2 Allen Choate, Acting Country Representative, The Asia Foundation, briefly explained the need for further integration of South Asia. Despite having a regulatory framework like SAFTA, the region remains as one of the least integrated parts in the world and that this has to do with the existence of NTBs. The removal of these barriers, he said, has obvious benefits to traders. The Asia Foundation will focus on regional integration in the coming years and that the work on NTBs is a part of that plan. Mr. Choate explained that The Asia Foundation has identified trade in ginger between India and Nepal as an area with high socio-economic impact. He went on to explain how The Asia Foundation has created a challenge fund where their partners would come up with high impact activities, as in the ginger trade example, and the organisation would fund these activities.

3. Special Address

3.1 Rehmatullah Javed, Vice Chairman, Trade Facilitation Committee, SAARC CCI, explained the work the SAARC CCI does regarding trade facilitation. He pointed out some of the objectives of SAARC CCI like economic prosperity through increasing intra – regional trade from 7% to more than 15%. He mentioned some initiatives that would help increase regional trade including regional currency, energy and food security measures, sharing of agricultural resources and water, investment in trade, women empowerment, and youth development. He emphasised on the need to develop SMEs and the inclusion of private sector in policy making. The region should improve air connectivity, increase number of visas, communication, and improve trade corridors. He also realised the need for fast payment option to support trade and that banking plays a vital role in facilitating trade. Currently there are no banks that operate in all 8 countries.

3.2 Goutam Ghosh, Additional Director & Head – Arab & South Asia, FICCI, Shared his views on NTBs. He spoke about the recently concluded SAARC Business Leaders Conclave where trade related issues were discussed at length with industry and their feedback was noted. The issue of financial intermediaries was raised during the event. He stated that South Asia has the potential to grow while the other regions have started shrinking. He went on to

elaborate on certain issues related to trade pertaining to each country in the region and said that as far as banking is concerned the region's industry has not developed enough to facilitate trade and that the local banks in each country have not expanded to other SAARC countries. Mr. Ghosh said that India is the only country that has started banks in most of the SAARC Countries. Pakistan, Sri Lanka and India have started moving forward while the rest are lagging behind. Traders have found other legal ways to import and export from each other due to the lack of regional banking infrastructure. Foreign banks are facilitating transactions in these countries due to lack of local banks. He went on to say that some countries in the region lack complementary technology for modern banking.

4. Technical Aspects of L/Cs and Related Issues

4.1 Somi Hazari, Managing Director, Shosova Group of Companies explained what a Letter of Credit (L/C) is and basic procedures involved in issuing a L/C. He explained the two types of L/Cs; revocable and irrevocable L/Cs. The role played by the advising bank while paying through L/Cs and who is to bear the cost of issuing the L/C was also elucidated. He emphasised that care should be taken while filling a L/C and that any mistake would mean dishonouring of the L/C. He emphasised on many technical issues related to L/Cs and that the banks credibility is a very important thing when it comes to honouring a L/C.

4.2 Mr. Hazari spoke about the certificates that one needs for trading, like the Bill of Lading for shipment, the Airway bill, and the loading receipt for trucks which are documents evidencing transport. Next he explained the rules involved in issuing a Certificate of Origin. He said that in an FTA a Certificate of Origin is issued by the respective commerce ministry and that if nothing is specified the person himself can issue it.

4.3 Mr. Hazari went on to explain the roles played by banks and how the trader pays a very high commission when a third bank is involved in the transaction. These costs eat into the profit of the SMEs.

Problems while using a L/C

- a) Country might be going through balance of payments crisis
- b) Banks collapse
- c) Local knowledge of the import location is important to know when the goods and the certificates will arrive.

4.4 Finally he emphasised on the credibility of the banks, the need for more money changers like western union, basket currency for south Asia and more interaction among relevant authorities.

5. Discussion

5.1 Mahfuz Kabir, Senior Research Fellow, Bangladesh Institute of International and Strategic Studies said that since the problem of lack fast payment options arise from the monetary policy it is to be classified as a NTB. The central banks should be involved in the reforms to solve this particular issue. He wished for an efficient dispute settlement procedure and a single currency in the region.



5.2 Majyd Aziz, Chairman, SME Bank Limited, Pakistan said that South Asia has the potential to do business due to the cultural similarity in the region. But NTBs and NTMs have made the region one of the least integrated. The respective countries' chambers of commerce do not have the critical mass to change the policies in the region. Informal trade has flourished due to these barriers.

5.3 Muhammad Adnan Jalil, Director, SME Bank Limited, Pakistan, said that about 6-7% of the payments within the SAARC is routed through a third country and that Individual countries have excellent banking system but they have not been linked. He noted that there are delays in receipt of payments due to these NTBs. He wished that the reliance on US \$ ends and a single currency to trade within the region emerges. He said that it would be great if FPCCI and FICCI jointly manage a web portable where issues of cross border trade can be raised.

5.4 Manzur Ahmed, Advisor, Federation of Bangladesh Chambers of Commerce and Industry, said that this issue remains as one of the biggest challenges. It creates a lack of trust among the traders. He said that obstacles in formal payment mechanisms have contributed to the growth of informal modes of payments. Asian Clearing Unit is important. The role of each intermediary should be noted to understand the bottlenecks in the procedures. The disputes over financial issues should be taken up by SAFTA.

5.5 The general discussions referred to automation of payment mechanism, resolution of issues related to insurance, new and innovative instruments, mediation against arbitration and establishment of a mediation centre etc. as potential alternative solutions.

