

2nd Focused Meeting between Clientele Group and the Service Providers  
On  
**Lack of Reliable and Fast Payment Options to Facilitate Trade Transactions in South Asia**  
Tuesday, 08 April 2014  
Dhaka, Bangladesh

**Report**

**1. Introduction**



1.1 CUTS International is implementing a project titled “Lack of Reliable and Fast payment Options to Facilitate Trade Transactions in South Asia”. This project is being supported by The Asia Foundation. In association with Unnayan Shamannay and with support from the Asia Foundation, CUTS organized 2<sup>nd</sup> focused meeting as a part of a series to gather the recommendations for policy reforms to address the issues of payment defaults and trade related financial services in context of regional trade in South Asia. The meeting was attended by representatives of trade and industry organisations and financial service providers including representations from SAARC CCI, FICCI, FBCCI, FPCCI and leading banks of India, Bangladesh and Pakistan.

## 2. Welcome Remarks



2.1 Joseph George, Policy Analyst, Centre for International Trade, Economics & Environment, CUTS International welcomed the gathering of distinguished participants, explained the objective of the meeting. He referred to past studies of CUTS which have identified difficulties in cross-border payments related to trade as one of the major non-tariff barriers. Though there are several policy recommendations to address this issue, their implementation still remains incomplete. Payment defaults damages trade relations more than any other barrier, still issues related to trade payments is 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.

2.1 Mahfuz Kabir, Senior Research Fellow, Bangladesh Institute of International and Strategic Studies noted that the rejection of Letters of Credit (LCs) issued against consignments is one of the major impediments to regional trade integration. There is lack of coordination among the central banks, financial regulators and institutions in South Asian countries. Since proactive actions should emerge from apex financial regulators, it is important that various directly affected stakeholders submit a collective action plan for the consideration of apex regulatory bodies belonging to the region.

2.3 Goutam Ghosh, Director & Head, South Asia & Arab Regions, Federation of Indian Chamber of Commerce and Industry (FICCI) appreciated the initiative undertaken by The Asia Foundation, CUTS and partner organisations and said that the topic of reforms to ease trade payments is being actively pursued by various industry organisations. Provision of adequate payment options requires a larger role of service providers, for which the central banks in all the eight SAARC nations should work together.

2.4 Reflecting upon his experience in the SAARC region, Mr. Ghosh underlined that a proper inter-bank relationship in the SAARC region has been lacking and FICCI is consistently trying to make this noticed

and resolved. Despite the routine ministerial meetings at the SAARC level, particularly the consultations held between finance ministers of SAARC countries, a framework is yet to be introduced. As of now the role of respective central banks of SAARC region viv-a-vis regional mechanism to resolve payments related complaints is not clearly defined and is limited to closed door process.

2.5 The issues related to financial institutions, should be dealt through apex financial regulators of SAARC countries, and the respective Finance Ministers should empower them in such a way that they can resolve banking issues which may not necessarily require major policy changes, but small institutional rearrangements. There exists a bilateral arbitration mechanism for most of the trade and investment issues but it hardly covers the issue of payment defaults and hence better coordination amongst banks should be ensured.

### **3. Speech by the Guest of Honour**

3.1 Abu HenaMohd. Razee Hassan, Deputy Governor, Bangladesh Bank said that the central bank has taken a series of steps to make the country's banking sector more trade friendly. He stated that new regulatory measures are put in place to ensure timely payment against import. The apex banking regulator has decided to penalize banks under the Bank Company Act for non-payment of import liabilities.

3.2 He noted the importance of the issue related to the trade transaction and said that apex bank of Bangladesh has constituted a high level committee comprising of 3 Executive Directors of the Bank to deal with non-payment. He believes that such unilateral initiatives will inspire regulators and stakeholders of other SAARC countries to improve both scope and quality of the services of financial intermediaries to facilitate trade in South Asia.

### **4. Problems faced by the Industry regarding Trade Related Banking Transactions: Focused discussion Based on the Memorandum of the First Meeting**



**Chair: Rehmatullah Javed**, Chairman, Grand Group-Pakistan, SME National Committee-FPCCI, SAARC Business Promotion Committee-LCCI; Vice Chairman, Trade Facilitation Council – SAARC and Former Secretary General SAARC CCI

**Speakers**

**Somi Hazari**, Managing Director, Shosova Group of companies; Board Member, Southern India Chamber of Commerce and Industry; Former President, India ASEAN Sri Lanka Chamber of Commerce & Industry

**Manzur Ahmed**, Advisor, Federation of Bangladesh Chambers of Commerce & Industry

4.1 The speakers argued that further growth in trade without simplified banking procedures is not possible and streamlining of payment procedures throughout the SAARC region must be expedited. Small and Medium Enterprises (SMEs) of the SAARC region will be benefitted by simplifying and integrating banking processes. SAARC CCI in association with SAARC Secretariat should advocate for and support the process of streamlining the banking regulations. There should be a strong branch network of respective banks in South Asia so as to support trade between SMEs.

4.2 While some of the cases of rejection of LCs are due to failure on the part of traders/parties in complying with norms or applicable regulations for furnishing LCs in countries involved, the trading community recognizes that such norms or applicable regulations have to be standardized at the regional level and disseminated accordingly to traders and service providers. For standardization of regulations applicable to furnishing and processing of financial instruments used in trade, the SAARC Secretariat should submit this issue for the consideration of the forum of Central Banks (national apex financial regulatory authorities) of all eight SAARC member states.

4.3 The participants unanimously agreed that a long-term solution to payments related problems faced by traders is possible only through cross-border presence of native banks (financial service providers) of SAARC Countries in each other's territory. While the trading community wishes that the initiatives taken in this regard are expedited, in the interim, a list of banks from each country are identified and authorized by respective national apex financial regulatory authority as nodal financial service providers. Such nodal banks may be entrusted with the responsibility of fast-tracking reliable and transparent payment modes used for honoring trade transactions.

4.4 Three of the main recommendations highlighted by industry/trade organisations are:

- The SAFTA Ministerial Council (SMC) should constitute a commission to function under the supervision of the SAFTA Committee of Experts (COE), which has the mandate of assessment of regulatory reforms required for facilitating access for traders to reliable payment modes, instruments and service providers.
- The SAARC Chamber of Commerce and Industries should be duly notified and entrusted with the responsibility of assisting the reform initiatives in consultation with apex industry chambers of all eight SAARC Member Countries.



- A regional mediation centre should be constituted to expedite resolution of complaints related to trade payments, processing of LCs and related financial instruments used in trade.

4.5 The trading community asserted that the initiatives that have been unilaterally undertaken so far to ease trade payments should be highlighted and thus incentivize other countries to reciprocate. In the absence of reliable formal payment mechanisms, trade transactions channelled through third countries could emerge as a viable option for traders, which is not to be encouraged because of significant revenue losses to SAARC governments. This reality should also be highlighted so as to incentivize authorities to undertake adequate policy reforms at the earliest.

## 5. Policy Recommendations from the Financial Service Providers to Facilitate Trade through Seamless Banking Transactions



**Chair:** Ghosh, Director & Head, South Asia & Arab Regions, Federation of Indian Chamber of Commerce and Industry

### Speakers

**Syed Salman Ali**, Head of Treasury, Al Baraka Bank (Pakistan) Limited

**P T Srinath**, Joint Director, Federation of Indian Export Organisations

**Majyd Aziz**, Chairman, Board of Directors, SME Bank Limited, Pakistan & Former President Karachi Chamber of Commerce and Industry

**Muhammad Adnan Jalil**, Director, SME Bank Limited, Pakistan & Executive Committee Member SAARC CCI

**Kazi Taslima Banu**, General Manager, International Trade Finance Division, Sonali Bank, Bangladesh

5.1 Service providers agreed that regional trade potential is higher than the current levels and frictions in payments have been a persistent issue hindering trade in South Asia. Despite several policy measures taken for the betterment of regional payment mechanism, it still suffers several shortcomings at the operational level. The solution requires the intention and spirit of both the regulators as well as the service providers to recognise the fact that they are the main catalysts to growth in trade in the region and therefore regulatory bodies and relevant financial institutions from all SAARC countries should coordinate with each other on reform measures.

- It is recommended that the leading trade facilitatory bodies in SAARC countries should be included in various sub committees of the SAFTA Committee of Experts in the policy making levels and should continue with their facilitatory services in their respective countries for the betterment of trade. For example, Sub Committee for Banking and Finance/Sub Committee for NTMs where organisation like FIEO and FICCI can represent India besides their counterparts from other SAARC countries.
- A mediation centre should be established to resolve complaints related to payment delays/defaults. Bangladesh International Arbitration Centre for banking related issues has set precedence and a similar mechanism could be operationalised at the regional level on mutually agreed terms.
- In the case of SME sector, credit limits of the clients often get blocked and often when SMEs export under an LC, service providers discount and put it in the liability of the customer in case of non-conformity with formalities. However, under the ICC 600, once the bank agrees to pay on the due date, the liability should be passed on to the banks, not on the customer, and the same standard shall be applied at the regional level. Once the LC is approved and opened, banks should be legally bound for execution of the transactions.
- Underling the importance of branch network, it was noted that in the absence of a good branch network, business transactions are done through third party involving extra cost, which is significantly higher, and transactions happen mostly in US dollar. The extra cost to trade could be avoided if the central banks of respective SAARC countries agree to maintain a mixed basket of local currencies for trade purposes and thereby enable regional trade through localized transaction units.
- Strict rules and monitoring mechanisms are to be introduced in order to eliminate illegal money transfers and other informal payment channels.
- For traders, under invoicing and over invoicing are the major issues. This is prevalent in the SAARC region as in some product lines countries do not follow the standardized HS code system however categorize certain products under another HS code. This kind of practices undermines the formal trading system by inviting reliance on illegal money

transfer methods. It is vital to identify malpractices of this nature and plug the loopholes through regional trade rules.

- ICC 600 and UCP 600 clearly articulate the rules of international trade payments. SAARC region shall attempt to streamline their relevant local laws with universally accepted international laws instead of reinventing the process altogether.
- There are also cases where LC issued against shipments is withheld because of sudden price variation. Service providers and regulators should strictly not entertain such kind of excuses and respect the wording of an LC once it is opened. Lot of LCs payments are held up because goods are not cleared on time. To prevent this, it is necessary for SAARC countries to have MRAs with each other and mutually endorsed testing arrangements in place.

5.2 Participants urged the respective central banks of SAARC countries to come forward and have a larger say in facilitating banking reforms and promote a uniform code of conduct for processing trade transactions. One of the recommendations was for the central banks to underwrite issued LCs so as to supersede the otherwise required third party guarantee by the foreign banks. This will substantially reduce the time and cost of doing business. Possibilities of establishment of a SAARC Bank were also discussed.