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Implications of Covid-19 for International Trade Finance: Bangladesh Context

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Segment-1: Tarde Financing in Distress in the Environment of Economic and International Trade Recession

Global economies are fighting covid-19 at significant economic costs as social distancing and reduced mobility came up as the most effective ways till date. The strategies caused slowing down or halting of economic activities and international trade[1] resulting in huge costs. The dynamics and complexities of the current situation of international trade have notable implications for importers, exporters and lenders or trade financing institutions. All major trading partners are already in the intense grip of Covid-19, and facing international trade contractions, commitment failures, cancellations of orders and supply chain uncertainties. These serious challenges of international trade transactions are getting translated into the disruption and shrinkage of trade financing activities.

Addressing contamination risk is at the center by all stakeholders including banks. Banks are expected to support policy makers as well in their efforts to inject fresh liquidity in the economy through enhanced trade financing and other lending activities. This is time when traders are in severe challenges of business disarray and need liquidity and cash support. The trade financing banks are also to take care of their financial health by enforcing business continuity. As the Covid-19 disrupts global supply chains, experts are predicting that the trade finance revenues are bound to get hard hit. Default rates for bank-originated trade finance have historically been low however, there are fears that banks may have to face loan-default challenge even in trade finance in response to the covid-19 outbreaks. Challenges of smaller traders and banks might be even higher.

As in most other global economies, Covid-19 are affecting the real economy, financial transactions, businesses, commerce, and consumers in Bangladesh. Symptoms are showing that the apparel sector of Bangladesh, the key export sector of the country, may suffer for the outbreak of the virus. A number of exporters of the country are already experiencing cancellation, postponement or rescheduling of orders and delays in delivery. Banks in the country also started confronting challenges associated with their trade financing services. Alongside handling contamination risk as priority, it became crucial now to adopt right kind of strategy by the traders, trade financing banks, and the policy makers for continuing and supporting smooth trade and trade financing transactions.

In response to the development, global economies including Bangladesh are engaged in responding with various fiscal and monetary measures many of which are clearly associated with promoting trade and trade financing. It is essential that traders and trade financing banks to respond righty to these market intervention measures for the greater interest of the country. This is particularly true for Bangladesh where international trade has considerable implications for the economy and the banking sector has notable involvement in international trade facilitation. The objective of the keynote is to raise certain issues for discussion for identifying right approach and strategy of the traders and the bankers to handle existing and upcoming international trade financing challenges of the country in the context of the Covid-19 scenario.

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[1] International trade carries substantially more risk (than domestic trade) due to differences in language, culture, politics, legislation and currency; and understanding the dynamics and complexities of an international trade are important for buyers, sellers and lenders (GTF, 2020a). The commonly associated risks of international trade are even higher at this moment like product and manufacturing risk, payment risk, transport and logistics related risks, document related risks, political risk and currency risk.

Segment-2: Published Literature and Trade Financing Knowledges are Helpful Cradles for Banks and Traders in Designing Strategies to Face Covid-19 Challenges

Trade financing is concomitant with several elements covering certain domestic and international rules and regulations; export and import volumes and baskets; logistics and supply chain services; trade and trade finance related frauds and crimes; and associated banking services. Existing and potential implications of covid-19 on international trade and trade financing are the information that are required to craft foundation for identifying right approach and strategies for the trade service providing banking and trading communities at this moment. A number of intergovernmental, international and national organizations and entities are coming up with verities of information, forecasting, policy responses and preparedness ideas since the origin of the virus in China, the key trading country of the globe.

The available published data and forecasting on international trade activities, support services, and trade financing by the institutions and research organizations are having a logical challenge of precision when there are obvious limitations of gathering accurate information and noticeable uncertainties on the extent of economic damages. However, these scenario analyses and economic data on pessimistic and optimistic forecasting are crucial for the business entities and to form a credible basis for planning, strategizing, and preparing.

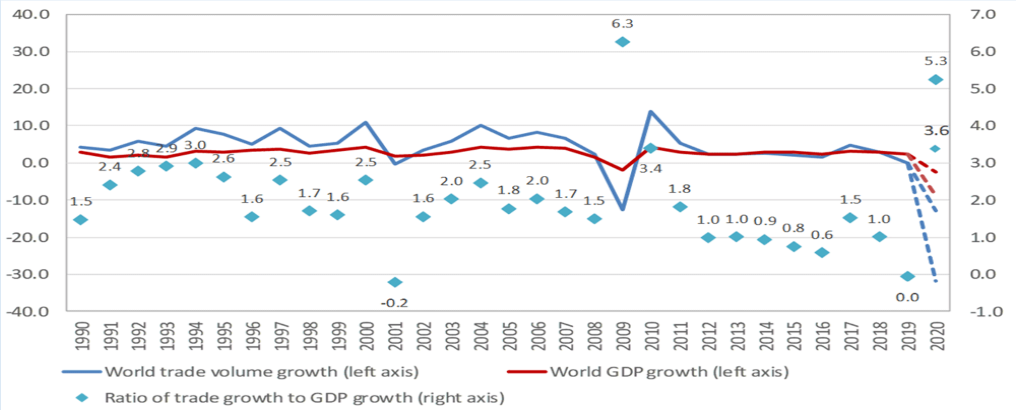
Scenario analyses, strategic approaches, and policy and operational suggestions and forecasting by organizations like United Nations Center for Tarde and Development (UNCTAD), World Tarde Organization (WTO), World Economic Forum, International Chamber of Commerce (ICC), Asian Development Bank (ADB), International Finance Corporation (IFC), Financial Action Task Force (FATF), International Monetary Fund (IMF), Asian Bank for International Settlement (BIS), Financial Stability Board (FSB) and several scholarly articles published since February 2020 are important sources for understanding the existing scenario and for perceiving the future by the businesses and banking institutions; and this keynote heavily draws on these sources to demonstrate the implications of Covid-19 on international trade finance fronts to form the context of banks' and traders' strategies and approaches. Bangladesh Banks (BB)'s circulars and announcements issued in the context of Covid-19; and research publication and newspaper articles on Bangladesh situation disseminated since early March, 2020 were used as vital inputs for the paper. Feedbacks from some senior trade finance bankers and traders on their operational challenges were extremely helpful.

It is well recognized that the current trade financing challenges basically originated from a situation of health, economic, international trade and supply chain crisis. Thus trade financing in the context of Covid-19 regime should be seen as part of a broad canvas. Keeping that in mind, the macro discussions on certain economic variables related to international trade, trade supply chain issues, and trade related crimes in the keynote are narrowed down to focus on 'Strategic Approaches' of banks and traders to handle trade financing related current challenges and the upcoming difficulties. The paper raises issues and questions for discussion and will be finalized by accommodating the comments and opinions of the live Webinar. Initiating the background and methodological issues in the segment-1 and 2, the international trade disruptions; international trade related logistics and crimes are discussed in the keynote in the global and Bangladesh context before putting forward certain questions and issues on trade financing (segment-9) and a concluding remark (segment-10).

Segment-3: International Trade Disrupted by the Protective Measures and Distorted by the Trade Restrictions

Economists and analysts are forecasting severe contraction of GDP of the global economy in the upcoming months. There are predictions that the global economy is proceeding to a much more severe shock compared to the last financial crisis during 2006-08. International organizations (IMF, The World Bank, UNCTAD, OECD, ADB etc.) have projected downward GDP growth.[2] In developing countries, the vulnerability to the pandemic is even higher and in addition to the direct effects, corona outbreak brings a sharp external demand shock for some developing countries in the form of lowering consumption demand of certain goods (like RMG), and dependence on remittances from developed countries (The Economist 2020; Housmann, 2020). International trade is predicted to be contracted and disrupted. Ratio of merchandise trade to the GDP experienced drastic fall (Figure 3.1).

Figure 3.1: Ratio of World Merchandise Trade Growth to World GDP Growth, 1990-2020



Source: WTO, 2020a

Table 3.1: Merchandise Trade Volume and Projections 2018-2021 (Annual % change)

	Historical		Optimistic Scenario		Pessimistic Scenario	
	2018	2019	2020	2021	2020	2021
World Merchandise Trade	2.9	(0.1)	(12.9)	21.3	(31.9)	(24.0)
Exports						
North America	3.8	1.0	(17.1)	23.7	(40.9)	19.3
Europe	2.0	0.1	(12.2)	20.5	(32.8)	22.7
Asia	3.7	0.9	(13.5)	24.9	(36.2)	36.1
Imports						
North America	5.2	(0.4)	(14.5)	27.3	(33.8)	29.5
Europe	1.5	0.5	(10.3)	19.9	(28.9)	24.5
Asia	4.9	(0.6)	(11.8)	23.1	(31.5)	25.1

Source: WTO, 2020a.

International trade and trade facilitation are greatly affected by the Covid-19. According to a WTO (2020a) estimation, world merchandise trade is set to fall between 13 percent (optimistic estimation)

[2] For example, IMF projected global economic growth to rise from 3% in 2019 to 3.3%in 2020 and 3.4 % in 2021 that are lowered by 0.1% point for 2019, 1.7% points for 2020 and 0.2 % points for 2021 (IMF, 2020).

and 32 percent (pessimistic estimation) in 2020; and nearly all regions would suffer double-digit declines in trade volumes in 2020, with exports from North America and Asia hit hardest. WTO adds, the recovery in 2021 is also unclear and dependent on the duration of the outbreak and the effectiveness of the policy responses. Practically, trade disruption initiated from the very beginning as the virus start spreading from China, and it is well recognized that China's rising importance in the global economy is not only related to its status as a manufacturer and exporter of consumer products, it becomes the main supplier of intermediate inputs.[3] Some countries with the highest dependency on the impacted region include the USA, Japan, Germany, the UK, and Switzerland; and most Chinese origin companies have considerable presence globally with the biggest footprint in countries including Hong Kong SAR, the USA, Spain, Germany, and the UK (Dan & Bradstreet, 2020). By the time all major trading partners are heavily within the grip of Covid-19.

The COVID-19 outbreak has shocked and de-globalized the international community (Alexander, 2020). WTO issued a report demonstrating a sharp increase in restrictive trade policies, especially those targeting products important to fight the pandemic (WTO 2020b). Countries dealing with the economic and public health-related impacts of COVID-19 have adopted a nationalist approach to their response, and more than 80 governments have placed restrictions of some sort (with many of those being notified to the WTO Secretariat)[4] on the export of personal protective equipment and medication necessary to treat those affected by the virus (Siddharth, 2020). Similar other measures restricting international trade in goods may be put in place as the situation evolves. In addition, the cold war evolved in the context of corona outbreak might be another source of challenge may result further restrictions in global trade transactions and other forms of collaborations.[5]

As COVID-19 spreads around the globe, fears of a deep global recession are mounting and thus several food exporting countries are considering export restrictions.[6] Food importing countries worried about the higher cost of food, in turn, lowered import tariffs on food, supporting demand but keeping upward pressure on world prices (IFPRI, 2020a). The trends might results increase in global market prices of rice and wheat and lower volume of international trade transactions.[7]

Tarde restrictions will have unintended consequences. It is true that WTO allows its members to impose trade restrictions such as export bans in certain limited cases, however, the explosion of such measures could negatively affect international trade interdependence, volume of transactions, and food security of many Africa's least-developed economies (World Economic Forum, 2020).

[3] About 20% of global trade in manufacturing intermediate products originates in China that increased from 4% in 2002 (UNCTAD, 2020).

[4] Detailed list of restrictions imposed and notified to WTO may been found in https://www.wto.org/english/tratop_e/covid19_e/trade_related_goods_measure_e.htm

[5] There are alarming signs of a truly dangerous conflict growing between USA and China in connection with corona spread. The USA government is already started considering measures to cut dependence on Chinese supplies of all kinds, and is planning to use tax breaks and state subsidies to provide impetus for USA companies to relocate production and procurement operations out of China (https://asia.nikkei.com/Spotlight/Comment/Coronavirus-pandemic-pushes-US-and-China-into-new-Cold-War).

[6] Kazakhstan, for instance, has already suspended exports of several cereal products, as well as oilseeds and vegetables; and Viet Nam is no longer granting rice export certificates while the country reviews domestic inventories (IFPRI, 2020a).

[7] IFPRI impact modeling results show a more than 30% increase in world prices for rice in 2020 ; 4% increase in global prices of wheat due to trade restrictions; however efforts are on to discourage export bans and some are working as well (IFPRI, 2020b).

Segment-4: Logistic Challenges and the Trade Associated Financial Crimes are Adding to the Difficulties

A closely related sector, global shipping activities are sharply affected with the cancellation of sailings and upended logistics and are causing immense harm to the trade facilitation and businesses of the shipping/airlines/transportation companies as well. With around 80 percent of global trade volume being transported by commercial shipping, companies are doing their best to meet the demand and rebalance their portfolio, nevertheless, it is expected that the shipping industry will see its volumes reduced between 20-25 percent (Arora, 2020). Over 50 countries have changed port protocols, ranging from port closure and quarantine measures to additional documentation requirements and examination (OECD, 2020). Lockdowns are also impacting the availability of labour to unload ships at ports or raised costs due to increased protective measures for workers. Limits on mobility of people are affecting a variety of trade processes, from physical inspections of goods for SPS, to testing and certification for TBT (Evenett, 2020). Cancellation of passenger flights linked to travel bans has limited the availability of air cargo while urgent shipping of essential goods has increased demand, resulting in increases in the price of air cargo (Curran, 2020). Some airlines are adapting their planes, enabling their passenger aircrafts to operate as cargo planes in order to avoid fatal business disruptions (Baker, 2020). Delivery times have also increased. Important shipping ports reported year-on-year drops in cargo between 10 percent and 20 percent in February (Baschuk, 2020).

Border agencies face challenges with expediting imports, exports and transit, while ensuring epidemic prevention and providing adequate customs clearance and compliance controls of goods and transport personnel (UNCTAD, 2020). As Covid-19 spreads across the world, courier services and the movement of paper documents have slowed. In several instances goods might have been shipped, but banks and buyers have not been able to access physical documents because the courier companies have stopped servicing certain regions, resulting in delays and extra costs (GTR, 2020). Governments need to adopt common approaches to address these issues across the global network of supply chains to avoid widespread economic collapse and critical supply chain disruptions.[8]

Newer trade related frauds and financial crimes are showing up in the Covid-19 situation. Since February 2020, several domestic and international regulators and watchdogs have issued warnings regarding potential impacts of the COVID-19 pandemic on financial crime. Europe's top banking regulator has instructed financial institutions to pay closer attention to transactions linked to international trade, as the effects of Covid-19 prompt criminal groups to seek new ways of moving illicit funds and goods across borders. The authority singles out international trade as a potential risk area. It says, banks processing payments linked to trade transactions should take additional measures

[8] UNCTAD (2020) suggested a 10-point action plan to support the logistics of international trade that include: ensure uninterrupted shipping; maintain ports open; protect international trade of critical goods and speed up customs clearance and trade facilitation; facilitate cross-border transport; ensure the right of transit; safeguard transparency and up-to-date information; go paperless; address early on legal implications for commercial parties; protect shippers and transport service providers alike economic emergency and social protection measures; prioritize technical assistance.

to establish whether unexpected flows particularly linked to customers or regions badly affected by the virus are of legitimate origin (GTR, 2020).
Reporting from FATF members, observers, and open sources indicates that criminals have attempted to profit from the COVID-19 pandemic through increased fraudulent activities (FATF, 2020). Interpol warns of financial and frauds linked to Covid-19. Banks might be vulnerable at this point and there may be ‘classic’ money laundering risks emerging as a result of COVID-19. The 2008 financial crisis is a good reference point to identify growing vulnerabilities of the financial system during such periods and address them vigilantly (OCCR, 2009).[9]

Trade-based money laundering is especially vulnerable in this crisis, as a result of unusual hyper fluctuation of markets as well as the prices of goods and commodities (ADS, 2020). Trade linked to medical supplies is already proving a fraud hotspot, and there is also an issue in global trade financing or passing invoices for medical supplies that are at over-inflated prices (ACAMS Today, 2020). Several national authorities issued Statement or guidance in response to COVID-19. Already there are concerns and suggestions for greater scrutiny surveillance using newer red flags.[10] Evolving changes in crime patterns may offer additional restrictions to the traders and bankers and might make the situation even more complex.

Segment-5: Trade Financing Activities Started Confronting Unprecedented Interruption and Might Come up with Even Larger Challenges

Serious challenges of international trade transactions are getting translated into the disruption and shrinkage of trade finance which is a huge driver of economic development.[11] The worsening situation is getting visible as the pause on trade and production across the globe is taking its toll. Traders, exporters and importers, are facing difficulties with preparing, shipping and receiving goods; making and receiving payments; cancellation of orders and commitment failures; huge cash crunch; and failure to comply with lending institutions’ obligations. Many traders are experiencing severe working capital restraints as they are experiencing temporary shutdowns and rapidly decreasing demand. SMEs or smaller traders and facing even greater challenges with cash crunch which might contract their trade financing market further, and there might be greater instances of the rejection of trade finance applications by banks. [12]

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[9] During the 2008 crisis, former United Nations Office of Drugs and Crime Executive Director Antonio Maria Costa warned that ‘stupid and diabolic’ bank behavior as a result of the financial crisis allowed transnational mafia drug money to enter the financial system, estimated then at USD320 billion annually. ‘With the financial crisis, banks became desperate for cash, and one of the few sources of liquidity these days is the transnational mafia,” he claimed, based on intelligence from several jurisdictions (OCCR, 2020).

[10] Red flags may include: recently incorporated companies with no or little track record in supplying medical or pharmaceutical products exporting; companies having a track record in supplying medical or pharmaceutical products where there has been a recent change in the controlling structure and where the said controlling structure cannot be properly identified or appear unusually complex; a company shipping medical and/or pharmaceutical products to a country and there is no planned cargo flight or vessel in the specified shipping period/route; trade documents that include vague description of the goods and/or their nature; price of goods and/or shipment that appear manifestly or abnormally high; and a company receiving shipment of medical and/or pharmaceutical products has no economic or lawful justification for this transaction (ADS, 2020).

[11] Trade financing is a huge driver of economic development and helps maintain the flow of credit in supply chains; it is predicted that 80-90% of global trade is reliant on trade and supply chain finance (Tarde Finance Global, 2020: https://www.tradefinanceglobal.com/trade-finance/)

[12] ADB survey found that the global trade finance gap remains at around USD1.5 trillion where nearly 60% of respondents expect the gap to increase over the next 2 years. SMEs face considerable barriers with more than 40% of SME trade finance applications rejected by banks (ADB, 2019); Covid-19 would disproportionately

There are global policy efforts to support traders and to push for continuing with trade financing flows, however, the real impacts are yet to be seen.[13] According to a World Economic Forum estimation (early February 2020), trade financing gap could reach USD2.5 trillion by 2025. And there is obvious reason to predict that the Covid-19 situation might make the gap even wider. As the condid-19 disrupts global supply chains, experts are predicting that the trade finance revenues are bound to get hard hit. Payment and credit related risks of banks have gone up sharply in this regime. Disruptions of trade transactions brought in problems with timely shipment; delay in transportation and releasing goods; troubles in sending, receiving and delivery of documents; failures in the commitment of payments; defaulting loan repayments etc., and resulted in operational challenges in international trade services offered by banks and financial institutions. Trade finance has been building a reputation as a safe asset class over the last few years. According to the ICC, default rates between 2008 and 2018 in all trade finance regions were low, sitting at 0.76% for import and export loans and dropping to as low as 0.05% for instruments like export letters of credit, however, Covid-19 seems set to disrupt this (Trade Finance Global, 2020). In this situation, as crucial economic agents of an economy, banks and traders have great roles to play. For banks, it is not only about supporting its clients and employees, it also about supporting policymakers and the society.[14] For traders, it is not only about businesses but also supporting policy makers and the society as responsible corporates.

Trade financing activities offered by banks to the traders take place within very formal setup and regulatory arrangements. These transactions rely almost exclusively on hard-copy paper documentation to process payments and then ultimately used to clear the release of goods by the buyers. In most global jurisdictions, electronic trade documents are not allowed and practiced or their legal status is unclear. It is obvious that social isolation and other health related necessary interventions have significant negative implications for the processing of existing trade financing transactions with the typical requirements of hard-copy submission and examination of documents, and face to face interactions with the clients. Severely disrupted or suspended courier or postal services are adding to the concerns. In case of letter of credit (LC), banks and traders are confronting challenges of commitment failures and uncertainties. There might be tendencies of giving spurious discrepancies to scape payment obligations by banks in a situation when bankers are shaky and banks are facing liquidity problems.

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impact SME sector, increasing their default risk in the process. Given that this has already been the type of firm most affected by the trade finance gap, the outlooks do not look good for extending credit to these firms (World Economic Forum, 2020).

[13] Countries in the globe have or are in the process of approving massive economic stimulus packages that will aid their economies, traders and SMEs in remaining afloat during these uncertain times. Such stimulus package announcements have had positive effects on the global stock markets, but their impact on global trade finance is currently yet to be realized. In addition to these packages, international agencies along with multilateral development banks are also attempting to contribute (Tarde Finance Global, 2020); IFC has committed USD8 billion of that, USD6 billion is being used to channel liquidity to financial institutions, so companies can continue to borrow and have the cash to pay their bills and their employees' salaries; in Vietnam, IFC helped increase trade-finance limits to USD294 million for four commercial banks. This helped preserve essential trade and supply-chain relationships especially with SMEs (World Bank Blog, 2020).

[14] Wyman (2020) perceives three key areas of focus to serve on the part of banks: *one,* serving customers i.e. ensuring access to critical services in affordable and comfortable terms; *two,* helping society i.e. supporting affected customers and communities; and *three*, responding to financial difficulty i.e. scenario planning, launching a special credit strategy, and operationalizing restructuring capabilities.

In this evolving and increasingly uncertain environment, banks, traders and policy makers became ambiguous and skeptical on the interpretations of ‘certain situations of commitment failures’ within the regulatory frameworks and guidelines. On the way to address these challenges, ICC issues a guidance note[15] that basically are the views of the experts in the management of trade finance transactions. However, it has clearly been noted, “all decisions taken with regard to a trade finance transaction that follows this guideline will be understood to be taken under the full responsibility and agreement of the parties involved”. Regarding the query, whether Covid-19 may be considered to be an interruption of the business or an event that is beyond the control of banks, as is referenced in the force majeure provisions of ICC rules (UCP, eUCP, URDG, URC, eURC, URR and URBPO), the stance of ICC remained in line with the opinion provided back in 2010 following the volcanic eruption in Iceland that caused severe delays in the presentation of documents under numerous trade finance transactions: “It must be noted that this is not an event that is covered by the force majeure rules of UCP 600 (article 36), URDG 458 (article 13) and URC 522 (article 15). The concerned banks, guarantors and instructing parties are still open for business; it is the documents that are being delayed in transit to them.” It is however recognized by the ICC that banks are already operating with reduced working hour and staffs, and as the situation continues to evolve, some banks may even be closed for certain period; and notes, it is not for the global body to pronounce whether this situation is a force majeure event rather it will require a court or tribunal with jurisdiction, or a government or regulatory authority to make a decision to declare an event as force majeure. ICC suggests for resolving most issues through dialogue between the commercial parties. Regarding other associated issues like delivery and examination of documents, liaison with applicants and beneficiaries, different places for presentation, document examination period, definition of a banking or business day etc., ICC stands for facilitating and enabling good-faith trade, under which all parties are encouraged to continue to interact on this basis and to leverage rules as well as sound commercial practice to find solutions. The global trade body however emphasized that any alternate solutions for the handling of a trade finance transaction subject to ICC rules require the express agreement of the parties under LC, guarantees or documentary collection, and terms of all agreed alternative solutions should be clearly documented to avoid any potential disputes.

Ultimately, roles of the national regulatory authority is the key. To take that forward, ICC issued an urgent memo[16] as steps to the governments and central banks of the global economies on April 06, 2020 that raised due concerns about the impact of COVID-19 pandemic on the functioning of the global trade financing activities. ICC calls on all governments to take emergency measures to immediately void all existing legal prohibitions on the use of electronic trade documentation; and as a temporary measure, void any legal requirements for trade documentation to be in hard copy. It is to be noted that some governments have already taken steps of this nature in response to the Covid-19 pandemic. Subsequently, ICC urged policy makers to go for constitutional arrangements and necessary legislative or executive actions to adopt legal frameworks to clarify the functional and legal equivalence of electronic and paper-based documents; and to consider implementing the 2017 United Nations Commission on International Trade Law on Electronic Transferable.

[15] ICC (2020) Guidance Paper on the Impacts of Covid-19 on the Tarde Finance Transactions Issued under ICC Rules: https://iccwbo.org/publication/guidance-paper-on-the-impact-of-covid-19-on-trade-finance-transactions-issued-subject-to-icc-rules/.

[16] ICC (2020) ICC Memo to Government and Central banks on essential Steps to Safeguard Tarde Finance Operations, April 06: https://iccwbo.org/content/uploads/sites/3/2020/04/icc-memo-on-essential-steps-to-safeguard-trade-finance-operations.pdf

In spite wide spread contaminations risk, the reality is, the globe has to keep import/export business moving amid the COVID-19 pandemic. For traders it is important to examine their force majeure provisions and be prepared for the possibility that some providers in their supply chain may invoke such a provision. It is crucial for the traders to closely monitor border closings, stay-at-home orders, and curfews at international and local levels; and monitor for any regulatory changes that may ease certain restrictions on import clearance, or provide relief by means of tariff payment deferrals, and consider whether the stimulus package may benefit business operations (Venable, 2020). Traders and trade associations must be active to reach out to government contacts and stakeholders to stay current and be open to any developing opportunities; and confer with counsel regarding changes or restrictions that may impact particular business operations.[17] Traders must maintain continuous communication with the trade financing banks and be transparent with their positions, challenges and existing and potential capacities to draw due supports.

Globally though some banks are struggling to maintain basic business operations; they are engaged in maintaining business continuity. There are no signs that the end of this period of trade and market turmoil is near; thus banks must boost resilience and futureproof their business. Digitization of certain processes and operations may be helpful; and there should be improved insights across trade finance processes, and to boost transparency and trust among clients (Ernst & Young, 2020). ICC is also propagating for an ad hoc arrangement at this moment to handle the situation.[18] Despite its vast negative implications, the Covid-19 pandemic may be inadvertently accelerating trade digitization (Tarde Finance Global, 2020). Currently extensive digitization may not be possible, however, ultimately resilient future of trade finance might be on the sound footing of extensive digitization and adaptation of major technological transformation i.e. digitalization.[19] An indicative strategic framework for trade financing banks might take the following form (Box 5.1).

[17] https://www.venable.com/insights/publications/2020/04/keeping-your-import-export-business-moving

[18] The ICC paper does not set out best practices but aims to be a practical reference document comprising trusted information about measures put in place to continue the flow of trade and trade finance when paper transfer has become difficult or impossible. ICC Secretary General John W.H Denton AO said: ‘In this exceptional time of crisis, ICC efforts to expedite the shift from analogue to digital in the trading world are crucial to help maintain the flow of trade and trade finance, and safeguard lives and livelihoods worldwide.’ (https://iccwbo.org/media-wall/news-speeches/how-banks-are-going-digital-to-manage-covid-19/).

[19] With shipping routes and ports disrupted, more countries entering lockdowns and pressure mounting on exporters, logistics networks and banks, there is a strong incentive for businesses who trade internationally to digitize their documents. There are concerns about whether digital documents and electronic signatures are secure and sufficiently protected against cyberattacks and fraud. There are concerns regarding fraud-proof electronic signatures! But it is not that the manual process is fraud-proof. Generally, as the globe is moving to a more electronic world, there are probably better protections around than paper (GTR, 2020).

Box 5.1: Handling Trade Financing Challenges and Action Plans for the Banks

Challenges	Immediate Response	Ultimate Response
Operational Resilience **► Tarde Financing Processing Centers with lack of connectivity, staffs, limited working hour, increased work burden.** **►Paper Based Transactions under LC; endorsement of BL to take delivery of goods; dependency on courier services; requirements of sign in the documents etc.** **►Increased Operational Cost**	►Review contingency plans; Re-balance remote and branch level works; Expedite transaction processing by splitting workflows. ►Bank guarantees to release goods; Electronic documents and signatures; Email indemnities and telephone confirmation from clients; Centralized document management, upload and retention accessible by clients and staff.	► Develop a contingency system of alternating suppliers to better tackle similar situations in future. ►Digitalize underlying trade documentation ►High Investment for digitalization
Control and Financial Resilience **►Potential exposure to fraud due to dilution of controls; and increased exposure to financial crime.** **►Weakened demand for non-essential goods, drives increased credit risk for SMEs; Foreign exchange rates and commodity prices may erode borrower's profitability; rising defaults; monitoring of collateral.**	► Develop and set up robust governance processes for deviations that include monitoring ►Automate KYC and other financial crime checks at a transactional level. ► Invest in and embed a culture of external data sharing to crosscheck ► Engage governments and development financial institutions to hedge difficult credits ► Automate and scale volumes for small ticket transactions.	►Digital transformation to led to reduce physical channels and automate and redesign processes ►Use advanced analytics to support an advanced internal ratings based approach to optimize risk weighted assets
Clients' Engagements **►Increased client interactions particularly in relation to document processing and the time critical nature of several steps; clients' channel of choice may not be available; insufficient operational staff available to complete manual activities; digital channels, where they exist, may not be able to handle increased traffic.**	► Provide clients' transparency regarding the status of their trade transactions. ► Drive adoption of digital channels for applications, servicing and other activities ► Increase the number of digital channels available to clients and invest ► Develop contingency solutions for critical clients and segments	►Client service channels rapidly digitalized; banks must decide how to sustain these and which areas of client engagement they want to focus on

Note: Author's compilation mainly based on Ernst & Young Global Limited (2020)

Segment-6: Bangladesh's International Trade and Trade Finance are Confronting Uncertainties in Response to Economic Disruptions

In IMF's recent projection (May 2020), it has been said that after slumping to only 2% growth (was projected 7.4 growth for the country in October 2019) this year, Bangladesh's economy will see a big jump next year with a record growth of 9.5%, provided the pandemic fades in the second half of this year and economic activities return to normal.[20] In its latest report, World Bank projected 2 to 3% growth for Bangladesh in the current fiscal; 1.2 to 2.9% in the next fiscal; and 2.8 to 3.9% in the 2021-22 fiscal year where the World Bank perceived that Bangladesh would face a longer recession.[21] The estimations are different because of difference assumptions. In spite of skepticism, it is good to see that Bangladesh might experience 9.5% growth in 2021, the highest ever for the country, as per the IMF's estimation. Alongside doemstic production, existing and forcasted data indicate towards fall of export and import tarsdnastions of the country.[22]

Certain economic sectors like export, import, remittance and non-essential manufacturing sector are said to have greater risk exposures, and certain areas like healthcare and supply chain management need special attention in this corona situation.[23] In the context of the vulnerability of external sector, domestic production of certain export destinations of the country are concerning. According to the IMF's recent projection (May 2020), USA, the largest destination for Bangladesh's export products, will face 5.9% negative growth this year, while Germany, the second largest destination of Bangladesh's garment products, will face 7% decline in GDP. These external changes and developments along with certain domestic factors are critical issues for the export and import baskets of the country[24] in this Covid-19 situation.

An estimation by Lu (March 2020) shows that the demand for apparel consumption in the EU and USA, the world's top two apparel consumption markets, is expected to drop sharply;[25] and China could be hit the hardest followed by Bangladesh. With the 5-10% decline in GDP in USA and EU, Bangladesh's exports could decline by 6-17% to USA and 4-12% to EU; and the resultant job cut might be by 4-9% in the RMG factories. According to a recent technical note by UNCTAD (April, 2020), a 2% reduction of Chinese exports in intermediary inputs may cause USD 17 million trade loss to Bangladesh.[26] This is concerning when RMG, wood products, leather and furniture of the country have considerable dependence on Chinese intermediary goods.

[20] https://tbsnews.net/economy/imf-too-projects-2pc-gdp-growth-bangladesh-69421

[21] https://www.worldbank.org/en/region/sar/overview

[22] Bangladesh's export earnings dropped by 4.79%in the first eight months of 2019-2020 fiscal year compared to the corresponding period of the previous financial year, according to the Export Promotion Bureau (EPB). (https://unb.com.bd/category/Special/coronavirus-bangladesh-to-see-sharp-fall-in-export-earnings/49525)

[23] The sectors to be directly affected are export, import, remittance and foreign direct investment; and it suggested for addressing healthcare, trade, and supply chain management through public expenditure and monetary policy interventions (CPD, 2020).

[24] Bangladesh's major export items include readymade-garments and others include shrimps, jute, leather goods and tea, and the top export destinations of Bangladesh are Germany, USA, UK, Spain and France. Bangladesh imports mainly include refined petroleum, raw cotton, heavy pure woven cotton, wheat and raw Sugar capital goods and foodstuff originating mainly from China, India, the EU and Kuwait.

[25] Every 1% decline in the US and EU GDP in 2020 could lead to 2-3% drop in apparel imports (Lu, 2020).

[26] https://tbsnews.net/economy/bangladesh

Covid-19 impact of RMG might be concerning because of the fact that the Bangladesh economy remains highly dependent on the ready-made garments industry for export, manufacturing, employment, foreign reserve, and women empowerment.[27] Many RMG traders are confronting challenges with production, shipment, receiving intermediary goods, and accomplishing several other trade and local processing and documentation related formalities. A number of international buyers are cancelling or postponing confirmed procurement orders.[28] Contraction of global demand of appeals may not only result in loss of RMG production, export and job loss, but also having repercussions on other industrial, consumer and service sectors.[29] The buying houses, engaged in facilitating RMG trade as a crucial intermediary in the country, are already facing notable difficulties. According to the published data of the World Bank, 98 percent of RMG factories are clients of commercial banks. All machines and plants are insured with insurance companies and, additionally, 87 percent importers and 15 percent exporters get their imports/exports insured with insurance companies. It is estimated that port usage fees earned from the RMG sector account for more than 40 percent of the income of the port authority. The looming crisis in the RMG industry will have a multiplied chain reaction on the whole economy and salvaging this industry will be beneficial to other sectors as well (CARES, 2020).

Like RMG, the indigenous raw based industrial sector like tannery and leather product industries are forecasted to be greatly affected which is 100 percent indigenous raw materials based sector. The sector is facing order cancellation, and it is anticipated that continuity of the pandemic will result employment cut and huge difficulties for local traders associated with the supply chain.[30] Bangladesh's shrimp exporters are said to have faced order cancellations amounting to around BDT 600 crore during March 2020. This has been a double blow to them, because it is the season to buy shrimp on the local market.[31] In spite of production disruption challenges in this Covid-19 situation, jute sector is coming up with better outcomes.[32]

[27] RMG contributes 11.2% to the gross domestic product of the country. More than 4,600 RMG factories constitute the largest industrial sector in the country and contribute to 36% of manufacturing employment engaging 4.1 million workers with 61% women employment, the RMG industry has played a crucial role in women empowerment and gender equity (Textile Focus, 2020).

[28] According to Bangladesh Garment Manufacturers and Exporters Association (BGMEA), international buyers have either cancelled or suspended USD3.16 billion worth of shipments involving 1,142 factories affecting 2.26 million workers as of 18 April 2020 (Bangladesh Garment Manufacturers and Exporters Association (https://www.bgmea.com.bd/).

[29] The value addition in the RMG industry has increased gradually and stands at 63.2% as backward-linkage industries developed. At an investment of USD6 billion, a large capital-intensive textile industry has been established for supplying yarn and fabric to the export-oriented RMG industry. Presently, there are 1,461 manufacturing units in the textile-value chain, of which 425 are in yarn manufacturing, 796 in fabric production and 240 in dyeing-printing-finishing operations. There is also a large number of accessories suppliers, mostly SMEs that are providing buttons, zippers, hangers, threads and other accessories (CARES, 2020).

[30] Bangladesh produces 1.13% leather in world context, most of which are exportable item in the world leather trade. It supplies around USD 1.2 billion to the national exchequer per year. And it is the second largest export earning industries sector in Bangladesh. Bangladesh tanneries and leather sector as a whole is losing more than USD 300 million in her third quarter foreign earning exchequer. (http://www.theindependentbd.com/, May 14)

[31] The Business Standard (April, 2020) https://tbsnews.net/coronavirus-chronicle/covid-19-bangladesh/covid-19-consumes-tk600cr-shrimp-export-orders-63643

[32] In the coronavirus cloud, jute exports have grown 14% year-on-year in the July-April period. The country’s total export earnings in the 10 months were worth nearly USD 29.5 billion, more than 21% than the target. (https://thefinancialexpress.com.bd/trade/unscathed-by-coronavirus-bds-jul-apr-exports-rise-14pc-year-on-year-1589089693, May 10).

Contraction of international trade transactions and disruption of related logistics are clearly visible from the recent transactions data. Imports and exports through the Chattogram Port[33] declined in March by over 12 percent and 26 percent, respectively, due to the damaging effects of the novel coronavirus on the entire globe. Referring to a Chattogram customs source, the Business Standard published, clearing and forwarding (C&F) agents usually submit 2,000 and 5,000 bills of entry per day respectively, for imported and exported goods to the port city customs house. However, the number of bills of entry dropped in March, by around 25 percent and 26 percent, for imported and exported goods, respectively.[34]

International trade transactions of Bangladesh is also foreign exchange transactions, and exports and remittance have notable implications in the foreign exchange market of the country. The ongoing trend and symptom indicate to decrease in export earnings and remittances of Bangladesh. It can be observed that some of the countries most affected by the coronavirus are those where many Bangladeshi citizens live and work; and thus the pandemic is likely to have a dampening impact on the robust remittance flows of the past few months. Furthermore, oil prices fall is expected to have a lagged effect on remittances into Bangladesh. Foreign exchange market of the country is yet to get any notable pressure, rather foreign exchange reserve increased to USD 33 billion in April from USD 31.3 in January, 2020. However, there is anticipation of supply pressure of USD in the upcoming months.

In this critical situation of Covid-19, budget reallocation by the fiscal authority and monetary policy interventions are rational expectations in all global economies including Bangladesh. Government of Bangladesh initiated preventive measures actively from early February, 2020[35] i.e. even before identifying any conformed Covid-19 case.[36] In remarkable ventures, the Honorable Prime Minister of the People's Republic Bangladesh came up with economic stimulus packages initially in two declarations on March 25 and April 05, 2020; and by mid-May, a total number of 18 stimulus packages worth BDT 101117 (3.6% of the country's GDP) crore have been announced.[37] Bangladesh Bank initiated several market intervention measures and refinancing schemes to complement the government's initiatives. Several of these are expected to have notable positive implications for the traders and the trade finance providing banks. Along with the support, strong macro environment is critical to handle this crisis. In spite of several macro challenges, it is inspiring that The Economist, a leading source of analyses on international business and world affairs, has listed Bangladesh as the 9th strongest economy in its report on the financial strength of 66 emerging economies in the wake of the Covid-19 fallout considering the status of public debt, foreign debt, cost of borrowings, and reserve coverage.[38]

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[33] Almost 92 percent of Bangladesh's import-export activities are performed through the Chattogram port – the prime seaport of the country. The Chattogram Custom House earns most of its revenue through taxation (https://tbsnews.net/economy/trade/covid-19-continues-batter-imports-exports-66238)

[34] Business Standard (2020) Covid-19 Continued to batter Import and Export of Bangladesh, May 24, https://tbsnews.net/economy/trade/covid-19-continues-batter-imports-exports-66238

[35] In early February, the government evacuated around 300 Bangladeshi citizens from China; the government installed screening devices across its international airports and land-ports for screening (www.weforum.org/agendacovid-19-coronavirus-bangladesh/).

[36]According to the media reports, the first 3 known cases were reported on March 7, 2020 by the country's epidemiology institute IEDCR, experiencing a steep rise in April and early May; as of May 7, 2020 there are 12500 reported cases and 200 death (https://www.worldometers.info/coronavirus/).

[37] https://tbsnews.net/economy/pm-announces-total-18-stimulus-packages-worth-tk-101117cr-81433

[38]www.thedailystar.net/business/coronavirus-fallout-bangladesh-9th-strongest-among-66-emerging economies

Segment-7: Policy Responses Have Implications for Tarde Financing in Bangladesh

In response to the wide spread virus contamination and economic, monetary and financial sector implications, policy makers are providing unprecedented support[39] to households, firms, and financial markets around the globe and in Bangladesh. Many of these policy interventions are directly and indirectly associated with financial sector stability- more specifically, soundness of the banking industry, and some are directly linked with trade and trade financing. In remarkable ventures, the Honorable Prime Minister of the People's Republic Bangladesh came up with economic stimulus packages initially in two declarations on March 25 and April 05, 2020; and by the time (May 15), a total number of 18 stimulus packages worth BDT 101117 (3.6% of the country's GDP) crore have been announced.[40] Bangladesh Bank initiated several market intervention measures and refinancing schemes to complement the government's initiatives. Some of these are directly connected with international trade and trade financing.

Enterprises engaged in international trade especially RMG received policy supports of the country's government from the initial phase of the corona responses. The economic stimulus package declared by the government are being primarily channeled and enforced by the banking industry. To that end, BB is engaged in facilitating the process by issuing complementary guidelines, directives, and incentives. As an initial response to support affected businesses, BB announced on March 19 moratorium on loan payments until 30 June 2020, which is also benefiting bankers by relieving them in meeting loan classification and provisioning requirements at least temporarily. In another circular, the central bank relaxed foreign exchange regulations for trade transactions and unveiled a number of policy support for the country's exporters and importers amid a slowdown in external trade in the awake of the coronavirus pandemic. In a notable initiative, the EDF facilities were allowed to meet back-to-back obligations. The central bank offered extended time for realizing export proceeds, submission of import bills of entry, back-to-back letter of credits and payment of export development fund loans, and repatriation of export bills. Several complementary circulars were issued to support banks and their clients for easy availing of economic stimulus packages targeted to MSME and agricultural sectors. In a relatively recent move in May, BB instructed banks not to charge customers interest (on loans disbursed before 1 April 2020) during May-June, 2020; and permitted foreign owned/controlled companies operating in Bangladesh to avail short term working capital loans subject to certain terms. The central bank is expected to come up with more responses with the changing circumstances and developments. [41] The following policy interventions and stimulus packages are directly associated with international trade transactions and also with trade financing (Boxes 7.1 and 7.2).

[39] These measures introduced by the policy makers may be categorized into: public health measures; human control measures; fiscal measures, and monetary measures (Ozili and Thnakom, 2020).
[40] https://tbsnews.net/economy/pm-announces-total-18-stimulus-packages-worth-tk-101117cr-81433
[41] The paragraph is based on a number of BRPD, DFIM, MPD, FE, SMESPD, ACD, DMD, FID and DOS circulars of BB issued during March, April and May, 2020 in response to handle the Covid-19 situation (https://www.bb.org.bd/mediaroom/circulars/circulars.php)

Sl.	Name of the Packages
Box 7.1: Economic Stimulus Packages Declared by the Government of Bangladesh Directly Associated with International Tarde	
1	Financial Stimulus Package for Export Oriented Industries (BDT 5000 crore)
3	Enhancement of Export Development Fund (BDT 12,750 crore)
3	Pre-shipment Credit Refinance Scheme (BDT 5000 crore)

Box 7.2: Bangladesh Bank's Initiatives and Refinance Schemes in Response to the Declaration of the Economic Stimulus Packages (Associated with International Trade)

Stimulus/ Refinance/ Interest Subsidy Scheme	Targeted Beneficiary/ Purpose & Type of Facility	Interest Rate for Banks	Interest Rate/ Service Charge for Beneficiary	Source of Fund	Facility Duration	Brief Modality
Financial Stimulus Package for Export Oriented Industries (BDT 5000 crore)[42]	Loan for Payment of Workers' Wages for 3 months (max.)	-	2% (Service Charge)	Fiscal Budget	2 years	Banks will apply for stimulus to BB. After availing the facility, they will disburse loan to the industries.
Enhancement of Export Development Fund (from USD 3.5 billion to USD 5 billion)[43]	Financing against export LC/firm export contract/ inland back to back LC to the Export Oriented Industries	1%	2%	BB	180-270 days	Banks will get refinance against their finance based upon own due diligence and the BB policy.
Pre-Shipment Credit Refinance Scheme (BDT 5000 crore)[44]	Pre-shipment credit to the Export oriented industries	3%	6%	BB	4 months	Banks will get refinance against their finance based upon own due diligence and the BB policy.

**Disclaimer: The detailed versions of circulars are in Bangla available at: www.bb.org.bd*

Economic stimulus packages (mentioned above) are basically working capital support to the affected industries engaged in international trade transactions. Banks are to disburse or facilitate these loan supports based on bank-customer relationship, which means banks are to bear the credit risk. Traders may have notable benefits out of these stimulus packages to turn around. From banks perspective, alongside contributing to economic turnaround, the packages are expected to contribute to regain trade finance clients of banks and thus to help minimizing credit risks.

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[42] https://www.bb.org.bd/mediaroom/circulars/brpd/apr022020brpd07.pdf; https://www.bb.org.bd/mediaroom/circulars/brpd/apr082020brpdl14.pdf; https://www.bb.org.bd/mediaroom/circulars/brpd/apr152020brpdl19.pdf
[43] https://www.bb.org.bd/mediaroom/circulars/fepd/apr072020fepd18e.pdf
[44] https://www.bb.org.bd/mediaroom/circulars/brpd/apr132020brpd09.pdf; https://www.bb.org.bd/mediaroom/circulars/gbcrd/apr222020sfd01.pdf

Segment-8: Trade Financing Challenges in Bangladesh Have Certain Unique Features amid Similarities with the Globe

Trade financing activities offered by banks to the traders take place within very formal setup and regulatory arrangements in Bangladesh and banks have notable involvement in the international trade-exportation and importation of the country. Banks facilitate payment and financing services and undertake related risks through their trade financing products that fall into the category of traditional trade financing techniques. Documentary Credit or Letter of credit (LC)[45] is the most widely used method of trade financing in the country, followed by documentary collection. Use of documentary collection has been in growing trends mainly in export transactions, and trade transactions of the Export Processing Zones (EPZs). This is sharp contrast to the global practice in general where 80 percent payment transactions are said to take place through open account. This is because of the explicit and implicit regulatory restrictions in response to the trade related risk profile of the country.

Exporters of the country have notable dependence on back-to-back LC. This is because of the garments sector that imports/procure raw materials from home and abroad for meeting their export orders.[46] There are also uses of transferable LC in exportation and confirmed LC in importation.[47] Documentary credit has almost 100 percent use in case of the importation of edible oil, wheat, pulses, oilseeds, and dairy products; whereas documentary collection is in growing use in case of exportation of RMG, jute goods, leather, and fish & shrimp. There are some tendencies of using cash in advance in jute exports in some countries. In trade facilitations, UPAS (Usance Pay at Sight) is a popular product in the offshore transactions of the country. Exporters heavily rely on packing credit or sometimes over draft facilities as pre-shipment credit, where as foreign bill purchases/ discounting/negotiations are popular post-shipment financing products. Export Development Fund (EDF) is a popular financing product for the exporters that BB introduced to meet exporters' foreign exchange import requirements of non-traditional manufactured items. Other than LC, importers heavily rely on loan against trust receipt (LTR) as import financing product (BIBM, 2019). Disruptions of trade transactions in this covid-19 regime brought in problems with timely shipment; delay in transportation and releasing goods; troubles in sending, receiving and delivery of documents, not different in other global economies and resulted in several complexities and challenges associated with these trade finance products of all types. Generally, demand of these trade finance transactions contracted as expected and trade financing banks are sometimes over conscious- not unusual in this scenario.

Contraction of banking activities and underperformance on the part of bankers are clearly visible in response to the imposition of social distancing rules since mid-March, 2020. A good number of bankers of the country are attending offices with certain essential payment and financing services, however, in many cases they can only serve a few customers. Trade finance providing bankers are facing difficulties with inadequate or no support from several stakeholders like CNF agents, insurance companies, courier firms etc. Sometimes, clients are not responding. Practically, jobs of the trade finance providing bankers increased remarkably and became burdensome to a great extent with so many messages and communications with the counterparties (banks and traders from home and

[45] Over 94 % (in terms of number of cases) import payments from the country were made using LC which was around 60% for export receipt (BIBM Review, 2019).

[46] BIBM (2019) survey shows that 45 percent of the total LC was back-to-back (local).

[47] Of the total export LC received 5% were Transferable; and 2% Confirmed LCs were issued from the country (BIBM Survey, 2019).

abroad) with requests of cancellations, extensions, settlements etc. while allowed working hour reduced. Trade service providing bankers commonly find it difficult to accomplish their jobs within this short office hour. Practically, complexities and work burden of the trade service providing bankers enhanced in this covid-19 situation.

Not different from most of the other parts of the globe, trade finance transactions rely almost exclusively on hard-copy paper documentation to process payments and then ultimately used to clear the release of goods by the buyers. Thus, social isolation and other health related necessary interventions have affected existing trade financing transactions with the typical requirements of hard-copy submission, examination of documents, and face to face interactions with the clients. Disrupted courier or postal services resulted difficulties for both banks and traders.

The Covid-19 situation is resulting uncertainties and payment challenges for the exporters and thus for the backward linkages industries. Importers are facing difficulties as some are not in a position to release the goods or to sale their importable to comply with the payment obligation of banks. BB's initiatives related to the relaxation of loan classification norms are logical support in this connection. To support exporters, as expected, the central bank also offered due extended time for realizing export proceeds, submission of import bills of entry, back-to-back letter of credits and payment of export development fund loans etc. Refinancing package for pre-shipment credit and lowering interest rate of EDF are reasonably good support for the exporters. However, for certain scenarios like back-to-back, foreign counterparty of the exporter must agree with the extended time. Unlike global trends, low default rate for bank-originated trade finance is not relevant for Bangladesh, rather actual non-performing loans in trade financing are at par with the other forms of classified loans. If not handled properly, some banks might be struggling in the wake of the pandemic.

As the extensive user of LC, Covid-19 regime might result notable liabilities to banks. Back-to-back LC might be a source of challenge for the country's banks in the coming months if not handled rightly. Cancellation of order is having and may have negative consequences on the back-to-back obligations. A significant of these back-to-back might be opened against 'purchase/sale contract' as happens normally. Cancellation of contracts may impose little obligation on the potential importers of garments or exportable from the country, as many of these are not legally enforceable. For a number of RMG exporters, raw material are in the country against back-to-back, some are on the way, and for some back-to-back has already been opened. Timely stimulus packages are offering comfort to the traders and bankers regarding back to back obligations for a period of time, however, possible future uncertainties remain.

With the export disruption, inflow of export proceeds are getting affected which might affect the supply of USD in the market. In addition, it is evidenced that the remittance sector, registered robust growth in recent time, may see sudden halt. It can be noted that some of the countries severely affected by the coronavirus are those where many Bangladeshi citizens live and work and are the key sources of remittances. Thus, with the export and remittance related uncertainties, shortage of USD and upward price pressure might be an additional challenge of trade financing activities in the country.

In a crisis situation, moral hazard might be a critical source of credit risk. It is the problem when the borrower may not have right incentive to pay back the loan, and bankers may not have adequate incentive to devote sufficiently for loan recovery. Moral hazard may result additional loan defaults as a section of traders and a group of bankers may take advantage of this Covid-19 scenario. There might also be unethical instances of availing economic stimulus packages by the traders or approach by the bankers for the traders who do not deserve these scarce economic resources.

Not different from other global economies, crimes associated with trade financing might be a cause of concerns for bankers, traders and policy makers. Of the banking services, importance and demand for online payment increased in the situation of social distancing and quarantine. Cyber risks and operational risks associated with the existing banking services might be concerning when internal control mechanism is not in full swing. With the increasing concerns of trade based money laundering (TBML), newer regulatory and compliance restrictions might come up with additional costs and compliance burdens for banks and traders.

In this evolving and increasingly uncertain environment, banks and traders became ambiguous and skeptical about their legal liabilities. ICC’s stand on force majeure does not offer concrete solution of these uncertainties to banks and traders, and it ultimately suggests for resolving most issues through dialogues between the commercial parties. In response to the ICC’s urgent calls on all governments to take emergency measures to facilitate electronic trade documentation and installation of legal requirements for digital trade documentation may not be a feasible option for all countries with their diverse nature and sizes of clients and the level of capacity of the banks.

Both trade financing banks and their clients are having their own business and liquidity challenges in this Covid-19 scenario. Lack of cooperation, transparency and strong communication between trade financing banks and traders might aggravate their challenges. Mistrust between them might be a key challenge in the Cobid-19 regime. Rigidity and non-cooperation on the part of banks would harm traders’ business and financial strength, whereas commitment failure and asymmetric information on the part of traders might put banks into greater risks.

Segment-9: Finding Answers of Some Instantaneous Questions as Issues for Discussion

As trade finance service providers, banks are in the corona warfront and are confronting contamination risk-the most serious concern at this moment. Does the bank have sufficient arrangement to minimize the risk? The clients visiting trade service department in person may face similar risk or may be the carrier. Have the banks installed system to handle that risk?

Trade financing banks are under performing and struggling with accomplishing the due jobs in the given banking hours allowed as per absolutely reasonable social distancing regulations. Some of the trade financing services are time-bound and necessary for the trade transactions to move on. How the banks are handling these pressures? Is the situation creating additional challenge for banks? How bank's top managements are responding to the situation?

Certain stimulus packages targets trade financing clients of banks specifically. These may offer notable beneficial impact to banks and the traders. A bank must have internal strategy for these packages so that its clients and the bank itself might optimally benefit out of these. Clients having financial strength and who are unaffected should not be facilitated with these scarce packages for the sake of the quick economic recovery of the country. How this might be ensured by banks? Are banks having due strategy and direction in this regard?

Ongoing trade disruption might affect trade payments and financing activities with varied degree. Credit facilities to some linkage industries might also be affected. All economic sectors are not equally affected and all trade financing must not be equally impacted as well. Thus, status of banks would be different in terms of existing and potential risks. Did the bank management check the potential payment obligation because of these business disruptions? How the bank might be affected from back-to-back LC liability and cancellation of orders, if any? What are the existing and potential trade financing areas where the banks confronting credit risk?

Legal liabilities of banks and traders might be a challenging issue. What is the position of the banks of Bangladesh regarding the force majeure stand of the ICC? Why or why not the ICC proposal is a viable option for the country? Did the bank management attempted to identify the feasibility of this option to form an opinion? Are trade service providers and bank management aware of ICC stand and legal liabilities of their payment and credit activities in the post Covid-19 situation?

Banks must be very transparent with the regulator in this critical situation. Regulators must be well informed about the trade financing challenges that a bank is or banks are confronting. At this current scenario, these banking challenges may not get priority over 'contamination risk' and 'economic recovery' concerns, however, would help getting recovery support from the regulator in due time. What initiatives are being undertaken by the bank management in this connection?

Currency risk might be concerning to banks in the coming months. Though currently the foreign exchange market has no pressure and the central bank is having adequate reserves, higher payment liabilities with lowering export receipt and inward remittances might create pressure. Is the treasury aware of the potential challenges associated with it, if any? OBU might be pressured with liquidity as well. How banks should prepare in this regard?

Covid-19 is offering opportunity to support clients and affected communities, thus improve reputation and image of a bank. Meeting commitment and liabilities by banks are crucial for reputation. Especially, international payment liabilities must be met for long term benefits and reputation. Trade service providers must not resort to unethical acts for the short-term gain of the bank. It is important to take care of the reputational risk and country risk for sustainable operation by banks in the post Covid-19 situation. Did bank management sent any concrete stand on this and duly informed the service providing desk level bankers?

Strategic communications are critical for addressing moral hazard problems that might cost credit quality of banks. Goal oriented communication, support and knock might work as fruitful incentive tools for the exiting borrowers to handle moral hazard. This is also critical for retention of the trader clients as well. Continuous communication is particularly relevant for trade finance clients that are confronting several unforeseen challenges at this moment. Are the banks' trade service clients in continuous contact with the concerned banks' officials?

In line with global trends of newer forms of money laundering, there might be fresh compliance requirements in the coming months for the banks. Practically, trade service providing banks are required to consider the newer types of red flags that are suggested globally in the context of potential increase in the TBML to avoid any future hazard. Are trade service providing bankers aware of these new types of red flags? How these can be enforced in this critical situation?

IT and fin-tech received renewed focus during this Covid-19 situation. Banks may attempt for certain digitization move where possible and start thinking of technology adaptation in the post cobid-19 situation for effective trade financing services. The costly affair might be handled by banks as consortium with the support of policy makers. The trade financing industry might be equipped with more trade financing products for better risk diversification and support with the arrangement of credit insurance or export credit guarantee in the post Covid-19 scenario. How should the banking industry foresee the trade financing market in the post Covid-19 situation?

This is time for enterprise risk management. Did banks have any special contingency team to address this special situation with representation from the trade services department? Are banks' board and top managements informed and aware about the existing and potential challenges of trade financing? How will the trade credit quality fall, if any, affect bank's risk weighted assets? Does the bank have liquidity and capital buffer to address any forthcoming challenge of liquidity and solvency risks that may arise from trade financing activities of banks?

Certain considerations and questions might also be very relevant for the traders. Traders and enterprises engaged in international trade activities must have arrangement to address contamination risk in their work stations or factories as priority. Are the traders having adequate risk mitigation measures and arrangements in their factories or offices? Are their employees and workers adequately incentivized by their managements to support the production? How traders might come up strongly to support policy makers and the society in addressing contamination risks and handling this crisis situation as part of their corporate social responsibilities? Cooperation and transparency between trade financing banks and the traders are critical at this moment. Are the traders getting adequate support in handling their trade finance related challenges and complexities? Are the traders transparent enough with their trade financing banks and doing their best to comply with banks' liabilities? Are banks doing enough to avail stimulus and refinancing schemes for the benefits of the traders? Are the traders showing due responsible behavior in availing scarce economic stimulus packages?

Segment-10: Concluding Comment- Solution Lies in Integrity, Cooperation and Digitalization in International Trade and Tarde Financing

This is the time when honesty and strong moral principles amongst traders and bank managements would play the strongest roles to handle the trade and trade financing challenges with the ultimate targets of recovery and consolidation of international trade transactions and trade financing practices.

The crisis reminded us how interdependent the global economies are! It is time for the collective efforts and to strengthen global cooperation to facilitate trade and trade financing by rejecting protectionisms and restrictions. A shared and transparent strategy of the global economies would help global supply chain going and curbing trade and trade financing allied malpractices.

Conversion of manual to digital i.e. work automation or digitization might help solving some on-going challenges and difficulties of trade financing. However, ultimately it is about digitalization that may help in transforming trade financing business models by adopting digital technologies and by transforming transactions and interaction processes with the customers and traders.

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