Operational and Financing Challenges of Major Exports during Covid-19

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Professor Shah Md Ahsan Habib, PhD, BIBM
Antara Zareen, Assistant Professor, BIBM
Tofayel Ahmed, Assistant Professor, BIBM

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Segment-1: Export Operation and Financing in Troubles in the Environment of Economic and International Trade Recession

Export operation and the associated financing have become a serious cause of concern in the Covid-19 regime. This is one of the economic costs that the Globe has been incurring because of the social distancing and reduced mobility-the most effective ways till date to fight corona virus. The strategies caused slowing down or halting of economic activities and contraction of international trade operations. The dynamics and complexities of the current situation of international trade have notable implications for export operations and export financing institutions. With the exception of medical and health related items, and some essential goods, all major export houses are facing international trade contractions, commitment failures, cancellations of orders and supply chain uncertainties. These serious challenges of export transactions are getting translated into the disruption and shrinkage of export financing activities.

Considering the severity of the Covid-19 devastation, addressing contamination risk is at the center by both exporters and trade financing 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 the time when exporters are in severe challenges of business disarray and need liquidity and cash support. The trade financing banks are also to take care of their own financial health by enforcing business continuity. As the Covid-19 disrupts global supply chains, experts are predicting that the revenues and operations of both the exporters and trade finance banks are bound to get hard hit. Challenges of smaller exporters and banks are even higher.

As in the most global economies, Covid-19 brought in a complex multi-crises situation[1] and are affecting the real economy, financial transactions, businesses, commerce, and consumers in Bangladesh. Symptoms are showing that the apparel business of Bangladesh, the key export sector of the country, and some other export items like leather products and footwear, shrimp and fish, jute and jute products, plastic and plastic articles may suffer in terms of their operation and financing. A number of exporters of the country are already experiencing cancellation, postponement or rescheduling of orders; delays in delivery; and financing challenges. Export financing banks in the country have also started confronting the operational troubles of the exporters. Alongside handling contamination risk as priority, it became crucial now to adopt right kind of strategy by the exporters, trade financing banks, and the policy makers for continuing and supporting smooth export operation. The objective of the keynote is to facilitate a discussion on the challenges and financing issues of the key export items of Bangladesh for identifying right approach and strategy in the Covid-19 scenario.

Scenario analyses, strategic approaches, and policy and operational suggestions and forecasting by several international organizations[2] and several scholarly articles are extensively used to prepare the keynote. 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. Inputs from some senior trade finance bankers and exporters on their operational and financing challenges were extremely helpful. The paper would be presented in a Webinar on the issue on June 19, 2020, and would come up with the recommendations based on the discussion and inputs of the event.

[1] Published recently in the Harvard Business Review, an article placed the existing and upcoming situation as a combination of Real Recession; Policy Recession and Financial Crisis (Carlsson-Szlezak et. al, 2020).
[2] UNCTAD, WTO, World Economic Forum, ICC, ADB, IFC, IMF, World Bank etc.

Segment-2: There are Widespread Forecasting on Production and Tarde Contractions, and Prevalent Evidences of Trade Related Logistic and Financing Challenges

There are widespread projection (by IMF, The World Bank, UNCTAD, OECD, ADB etc.) of downward GDP growth[3] and international trade contraction. 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) 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. Practically, trade disruption initiated from the very beginning of the crisis 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.[4] By the time all major trading partners are heavily within the grip of Covid-19.

The COVID-19 outbreaks are resulting increasing trade restrictions. 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)[5] on the export of personal protective equipment and medication necessary to treat those affected by the virus (Siddharth, 2020). 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] 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.[7]

A closely related sector, global shipping activities are sharply affected in the Covid-19 regime. With around 80 percent of global trade volume being transported by commercial shipping, and it is expected that the shipping industry would see reduction 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; and limits on mobility of people are affecting a variety of trade processes (Evenett, 2020).

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[3] 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).

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

[5]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

[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] 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).

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). 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). 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).

Trade related frauds and financial crimes are coming up as other critical challenges. Since February 2020, several domestic and international regulators and watchdogs have issued warnings regarding potential impacts of the COVID-19 pandemic on financial crime, and they have identified international trade as a potential risk area (GTR, 2020). 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 and surveillance using newer red flags. Evolving changes in crime patterns may offer additional restrictions and cost burden to the exporters and bankers.

Serious challenges of international trade transactions are getting translated into the disruption and shrinkage of trade finance.[8] Exporters are facing difficulties with preparing, shipping and receiving payments; cancellation of orders and commitment failures; huge cash crunch; and failure to comply with lending institutions' obligations. SMEs or smaller exporters are 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. [9] According to a World Economic Forum estimation (early February 2020), trade financing gap could reach USD 2.5 trillion by 2025, and there is obvious reason to predict that the Covid-19 situation might make the gap even wider. As the Covid-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. Trade finance has been building a reputation as a safe asset class over the last few years, however, Covid-19 seems set to disrupt this (Trade Finance Global, 2020).

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

[8] 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/)

[9] 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 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).

guidance note[10] containing the views of the experts in the management of trade finance transactions. It has been noted by ICC that, "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". ICC suggested for resolving most issues through dialogue between the commercial parties, and it has 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. ICC also called 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.[11]

Segment-3: Bangladesh's Exporters and Trade Financing Banks are Confronting Uncertainties in Response to Economic Disruptions

Like most other developed and developing countries, the Bangladesh economy has been projected to slump[12], and certain economic sectors like export[13], import, remittance and non-essential manufacturing sector are said to have greater risk exposures.[14] 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[15] 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.[16] Contraction of international trade transactions have implications for foreign exchange transactions[17] of the country.

[10] 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/.

[11] ICC (2020) ICC Memo to Government and Central banks on essential Steps to Safeguard Tarde Finance Operations, April 06: https://iccwbo.org

[12] In IMF's recent projection (May 2020), it has been said that after slumping to only 2% growth 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; 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 (https://www.worldbank.org/en/region/sar/overview).

[13] 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).

[14] 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 (CPD, 2020).

[15] 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)

[16] 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

[17] 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 fall in export earnings and remittances of Bangladesh.

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[18] 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;[19] 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.[20] This is concerning when RMG, wood products, leather and furniture of the country have considerable dependence on Chinese intermediary goods.

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.[21] Many RMG traders are confronting challenges with production, shipment, receiving intermediary goods, and accomplishing several other trade and local processing and documentation related formalities. Since the inception of the crisis, except some exceptions, almost all factories were shut down for more than one month which made the supply chain disruptive and several export orders could not be accomplished in due time. A number of international buyers are cancelling or postponing confirmed procurement orders.[22] In several instances, due to the late shipment and lockdown in different countries in the world, many foreign buyers cancelled export orders, or reduced the price of export order or claimed an undue discount on making payment of shipped goods or changed the payment terms of export orders. The buying houses, engaged in facilitating RMG trade as a crucial intermediary in the country, are already facing notable difficulties. Non-realization of export proceeds became a huge challenge. A number of exporters facing cash shortage; and in many instances, exporters' trade financing limit, both funded and non-funded, is being exhausted rapidly mainly due to non-realization of export proceeds.

Contraction of global demand of appeals may not only result in loss of RMG production, export and job loss, but also having repercussions on consumers and other sectors. 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

[18]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.

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

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

[21] 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).

[22] 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/).

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 is having a multiplied chain reaction on several backward linkage industries [23] of the country (CARES, 2020). Local suppliers of yarn, accessories, fabrics, dyeing chemicals and other raw materials to direct exporters have been experiencing sales shrinkage due to reduced export orders of direct exporters. As a result, in many cases, these are not in a position to adjust their bank loan which has direct impact on their loan limits. In addition to this, local suppliers usually get the accepted export bills purchased from their own banks. Due to the pandemic, in several instances, local LC issuing banks are not able to make payment of accepted bills to local exporters' banks due to non-realization of payment against master export orders or cancellation of export orders. The situation is causing notable liquidity problems for these enterprises, mostly SMEs.

Like RMG, the indigenous raw based industrial sector like tannery and leather product industries are forecasted to be affected. The sector is facing order cancellation, and it is anticipated that continuity of the pandemic might result employment cut and difficulties for local traders associated with the supply chain.[24] In spite of several notable challenges, the matter of comfort is that it has scope to substitute local raw materials and it requires less accessories unlike RMG. However, producers are facing challenges with quality raw materials that are mainly imported from China. The exports of leather and footwear are mainly LC based, however, to procure the raw materials, exporters avail pre-shipment export financing in the form of back to back LC to execute the export orders. As ports and other logistics connected with transportations were restricted for a long time in raw material providing countries and in ultimate export destination from Bangladesh, in a number of instances exporters could not make shipment timely or release raw materials from port. Items exported in these sectors are not part of essential goods, and receiving new export orders are very rare. Contraction of export orders and associated financing are evidenced.

Exports of fish and shrimp have been severely affected due to Covid-19. As observed, over the last three months, exporters in this sector have received very few export orders due to the border closing with Bangladesh's neighboring country and health concerns in export destination countries. In spite of some initial interruption, local supply chain remains intact. People working in supplying fishes to exporters are not affected as they have local demand. However, as a whole export order and export financing contracted. However, exporters have expressed their hope as borders would be reopened, demand of exporting fishes is expected to be very high which might require adequate financing. 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.[25] Exports in this sector are mainly executed mainly through LC followed

[23] 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).

[24] 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).

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

by cash in advance. As a whole export orders contracted. Cyclone *Amphan* in coastal districts of the south-western and north-western regions of the country is an additional blow to the producers. Due to the cyclone, many shrimp farming or hatcheries were damaged in the coastal districts.

The raw jute exporters faced a lot of problems due to covid-19. Exports of raw jute impacted due to the pandemic disruption with the key destination countries- China, India and Vietnam. Due to pandemic, exporters in this sector faced both supply chain and financing disruption in response to the covid-19 pandemic. Jute and jute goods sectors are not that much affected due to Covid-19 rather demand of jute goods from the country has increased to some extent in various parts of the globe even in the pandemic. The key reason for increasing demand of jute export orders is its environment friendly feature. In jute exports, bank financing is insignificant, as major exports are executed through advance payment followed by documentary credit. However, banks in this sector usually provide export finance in the form of Cash Credit in local currency for local procurement of jute goods related raw materials. Moreover, as payment is made advance, in most of the cases, backward linkages are also not affected. In spite of some initial production disruption challenges in this Covid-19 situation, jute sector is coming up with better outcomes.[26]

Unlike other sectors, plastic and plastic articles require a number of hands for procuring raw materials by exporters. In the process of exports, waste materials like pet bottles, mineral water bottles etc., are first recycled, and then exported where exporters are to depend on the raw materials which are based on various public events. Due to the Covid-19, almost all types of public gatherings were prohibited which resulted scarcity of waste materials. In addition to this, the environmentally sensitive sector have been facing restrictions from foreign buyer countries' environmental regulation for a couple of years. As a result, the demand of the plastic and plastic articles has decreased significantly along with reduced price offered by foreign buyers. In this sector, bank financing is insignificant, as major exports are executed through mainly LC followed by mixed payment terms in export orders. However, banks in this sector usually provide export finance in the form of Cash Credit in local currency for local procurement of waste materials. However, as demand of the items has decreased from foreign buyers due to Covid-19, people working in backward linkages have been affected significantly. Due to Covid-19, financing requests have not increased as exporters are not receiving new export orders.

Exporters of Bangladesh avail trade financing facilities within very formal setup and regulatory arrangements. Documentary Credit or Letter of credit (LC)[27] is the most widely used method of trade financing in the country, followed by documentary collection which 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.[28] There are also uses of transferable LC in exportation. Documentary collection is in growing use in case of exportation of RMG, jute goods, leather, and fish & shrimp. There are some

[26] 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).

[27] 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).

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

tendencies of using cash in advance in jute exports in some countries. 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 manufactured items. Trade financing products popular in the country are generally traditional in nature where involvement and risks of banks are significant along with the income opportunities. Generally, demand of these trade finance transactions contracted as expected and trade financing banks are sometimes over conscious- not unusual in crisis 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 for offering 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 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 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 given 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.

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. 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. 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. 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 exporters.

In this evolving and increasingly uncertain environment, banks and exporters 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 the exporters 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 exporters 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 exporters' business and financial strength, whereas commitment failure and asymmetric information on the part of exporters might put banks into greater risks.

Segment-4: Policy Intervention and Necessity of Aligning Policy and Operational Efforts and Approaches of the Exporters and Trade Financing Banks

Bangladesh is among the quick responders and Government of Bangladesh initiated preventive measures actively from early February, 2020[29] i.e. even before identifying any conformed Covid-19 case.[30] In remarkable ventures, the Honorable Prime Minister of the People's Republic of Bangladesh has come 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.[31] BB initiated a number of market intervention measures and refinancing schemes to complement the government's initiatives. Several of these are expected to have notable positive implications for the exporters and the trade finance providing banks.

Enterprises engaged in exports 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 (extended upto September 30, 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. For facilitating export trade during pandemic, issuance of back-to-back/usance LCs have been allowed with realization clause by the BB in a recent FE circular letter. The central bank is expected to come up with more responses with the changing circumstances and developments. [32] The following policy interventions and stimulus packages are directly associated with export transactions and also with trade financing (Boxes 4.1 and 4.2).

[29] 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/).

[30] 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/).

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

[32] 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)

Box 4.1: Economic Stimulus Packages Declared by the Government of Bangladesh Directly Associated with Export Promotion	
Sl.	**Name of the Packages**
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 4.2: Bangladesh Bank's Initiatives and Refinance Schemes in Response to the Declaration of the Economic Stimulus Packages (for Export Promotion)

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)[33]	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)[34]	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)[35]	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.

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.

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, 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. Considering the limitation of the resources, it is crucial that the economic stimulus packages must be availed by the exporters or approach by the bankers for the exporters who really need and deserve these scarce economic resources.

[34] https://www.bb.org.bd/mediaroom/circulars/fepd/apr072020fepd18e.pdf
[35] https://www.bb.org.bd/mediaroom/circulars/brpd/apr132020brpd09.pdf;https://www.bb.org.bd/mediaroom/circulars

What is the key objective of these policy interventions? Obviously, quick economic recovery. Why exports especially RMG have extensively been supported? Because the RMG and some other export items that have considerable economic and international trade implications for the country are getting affected. As the trade finance service providers, bankers are expected to be benefited out of these export promotion policy interventions. However, optimum outcome of all these policy interventions depend upon the right kind of operational and financing feedback on the part of the exporters and trade financing banks of the country.

In the context of the country, the importance of export transactions and the associated financing are well recognized. For both exporters and bankers, addressing contamination risks must be at the priority. It is also expected that export houses come up strongly to support policy makers and the society in handling contamination and other difficulties (where feasible) as part of their corporate social responsibilities. As crucial economic agents of an economy, banks have great roles to play in this unprecedented situation. It is not only about supporting banks' clients and employees, it also about supporting policymakers and the society. A bank has also to work to save itself. A recently published editorial, Banker (2020) considered the situation as a real opportunity to support customers, employees and societies and suggested banks to respond positively. According to the editorial, banks must start by ending all bonuses and cancelling dividends so that the resources of the bank can be focused on helping both retail and business customers with mortgage and loan holidays; banking associations should also step up by coordinating measures where they do not fall foul of competition rules and by putting out an industry message about what is being done (Banker, 2020). However, there are different views as well. Vater et.al. (2020) are in favour of focusing more on banks' resilience and opine that banks should first protect their employees and service providers through safety measures in branches and essential offices; and for their affected customers and small businesses they should offer payment extensions or other programs but only so far as their balance sheets allow.

In spite of debates, probably, this is the time when honesty and robust moral principles amongst exporters and bank managements would play the strongest roles to handle the export and export financing challenges with the ultimate targets of recovery and consolidation of international trade transactions and trade financing practices (Habib, 2020b). Cooperation and transparency between trade financing banks and exporters are critical at this moment.

Segment-5: Certain Questions Need Answers and Issues Demand Discussions for handling the Key Challenges of the Exporters and Tarde Financing banks

A number of exporters of the country and bank managements have been attempting to address the identified challenges. Following sets of questions might be helpful in identifying their customized approaches and strategies to address existing and upcoming challenges associated with export operations and the associated financing activities.

Like other enterprises, exporters need to address contamination risk as priority. Are the exporters having adequate risk mitigation measures and arrangements in their factories or offices? Are their employees and workers adequately incentivized by their managements to support 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? Are the exporters getting adequate support in handling their trade finance related challenges and complexities? Are the exporters 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 exporters? Are the exporters showing due responsible behavior in availing scarce economic stimulus packages?

Banks must handle Covid-19 related risks as priority. Trade financing banks are under performing and struggling with accomplishing the due jobs at this moment. However, exporters need extensive support at this moment. Some of the export financing services are time-bound and necessary for the trade transactions to move on. How the banks are handling these pressures? Stimulus packages may offer notable beneficial impact to banks and the exporters. 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?

Covid-19 is offering opportunity to support clients and affected communities, thus improve reputation and image of a bank. Meeting commitments and liabilities by banks are crucial for reputation. It is important to take care of the reputational risk and country risk in the process of export facilitation. Did bank management send any concrete stand on this and duly inform the service providing desk level bankers? Strategic communications are critical for addressing moral hazard problems in the crisis situation. 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?

The recommendations of this keynote will be prepared based on the discussions on the above mentioned questions/concerns and other issues/questions that will be raised and discussed in the Webinar.

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