



Technical Assistance Report

Project Number: 43134-01
Regional Capacity Development Technical Assistance (R-CDTA)
March 2009

Trade Finance Capacity Development (Cofinanced by the Japan Special Fund)

Asian Development Bank

ABBREVIATIONS

ADB		Asian Development Bank
CAREC	–	Central Asia Regional Economic
CCP	–	Cooperation concept clearance paper
COBP	–	country operations business plan
CPS	–	country partnership strategy
CSP	–	country strategy paper
DMC	–	developing member country
JSF	–	Japan Special Fund
QCBS	–	quality- and cost-based selection
R-CDTA	–	regional capacity development technical assistance
RCSP	–	regional cooperation strategy and program
SMEs	–	small and medium-sized enterprises
TA	–	technical assistance
TASF-IV	–	Technical Assistance Special Fund - IV
TFFP	–	Trade Finance Facilitation Program
WTO	–	World Trade Organization

TECHNICAL ASSISTANCE CLASSIFICATION

Type	–	Regional capacity development technical assistance (R-CDTA)
Targeting Classification	–	General intervention
Sector	–	Industry and trade
Subsector	–	Trade and services
Themes	–	Economic growth, regional cooperation, capacity development
Subthemes	–	Promoting economic efficiency and enabling markets, trade and investments, institutional development

NOTE

In this report, "\$" refers to US dollars.

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I. INTRODUCTION

1. The regional cooperation and integration strategy adopted by the Asian Development Bank (ADB) in 2006 identified trade and investment as one of its four pillars.¹ The strategy provides the basis for ADB's capacity building initiatives in the area of regional trade. Trade policy capacity varies significantly across Asia and the Pacific, with some countries lacking the skills needed to take advantage of new opportunities created by global and regional integration. ADB's regional departments and the Office of Regional Economic Integration are engaged in various capacity-building activities for ADB's developing member countries (DMCs). The proposed Regional Capacity Development Technical Assistance for Trade Finance Capacity Development (the R-CDTA) seeks to strengthen capacity, and specifically deals with development issues that impede trade.

2. The proposed R-CDTA is linked to a number of ADB's strategies and business opportunities as presented in: (i) country partnership strategies (CPSs), (ii) regional cooperation strategy and programs (RCSPs), and (iii) country operations business plans (COBPs) for ADB's DMCs. A review of these documents underscores the importance of trade finance capacity development in DMCs to enable ADB to meet its development objectives (Appendix 1 provides an overview of some of the specific RCSP, CPSs, and COBPs with direct links to the proposed TA).

II. ISSUES

3. The importance of international trade as a tool to help developing countries boost economic growth and generate the resources necessary for reducing poverty cannot be overemphasized. Trade (i) enhances a country's access to goods, services, technologies and knowledge; (ii) stimulates private sector entrepreneurial activities; (iii) creates jobs and attracts private capital; (iv) fosters vital learning processes; and (v) increases foreign exchange earnings.

4. In ADB's experience, many DMCs and DMC banks are developing their capacity to support international trade, but some DMCs face difficulties in benefiting as they should from international trade. Constraints relating to trade can be broadly categorized as relating to: (i) trade policy and regulation; (ii) poor physical infrastructure; and (iii) trade development issues, including access to trade finance and technology gaps.

5. The R-CDTA for trade finance capacity development focuses on trade development issues that impede trade, including financing. Many DMC banks struggle to establish and/or maintain correspondent banking relationships with international banks, which are needed to access liquidity and guarantees in support of trade. Some factors (e.g., political and macroeconomic instability) are beyond their control, but DMC banks also often lack knowledge of trade finance instruments, and may be unable to provide standard financial information to international banks. Such information is required to establish trade finance lines of credit between international and DMC banks. The lack of trade finance and financial reporting capacity among many DMC banks extends to transparency and governance issues, and reduces credit line availability from international banks. As a result, less financial support is available for DMC companies engaged in importing and exporting of goods and services. This reduces the availability and increases the cost of trade finance in many least developed countries (LDCs), hindering their full participation in international trade, and increasing the risk that they will become more marginalized.

¹ ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

6. The factors outlined above constrain ADB's DMCs to varying degrees. The R-CDTA will help ADB's DMCs bridge the gap between trade and development. The director general of the World Trade Organization (WTO), Pascal Lamy, noted to delegates attending a WTO convention in November 2008 that with respect to developing countries "a priority task is to enhance capacity."² Providing assistance to promote trade-related capacity development in developing countries is an integral part of promoting the future economic development and prosperity of ADB's DMCs, and helping them integrate into the world trading system.

7. The proposed R-CDTA is particularly relevant in the context of the current financial crisis, as DMC banks must retain and attract trade finance facilities to provide support for their clients' import and export activities.

III. THE PROPOSED TECHNICAL ASSISTANCE

A. Impact and Outcome

8. The impact of the R-CDTA will be sustained economic growth and improved living standards through the expansion of international and intraregional trade. This is particularly important given the current global crisis, as trade finance can play a positive role in cushioning dramatic declines in international and regional trade. Moreover, maintaining and enhancing trade finance lines in a counter-cyclical environment can enable DMCs to acquire critical goods—including medicine, food, fuel, and inputs for export production—needed for subsistence and/or fundamental economic activity. The outcome of the R-CDTA will be enhanced capacity in DMCs and DMC banks, resulting in increased trade finance activity. Specific outcome targets and the design and monitoring framework (DMF) are in Appendix 2.

B. Methodology and Key Activities

9. The order of priority in which the R-CDTA outputs and key activities will occur in DMCs is linked to the expansion of the Trade Finance Facilitation Program (TFFP). As described in the Expansion Strategy section of the report and recommendation paper for a major change in scope to the TFFP, countries will be targeted for expansion in an order of priority determined by market demand. This determination was supported by a survey of bank partners under the TFFP. Accordingly, this R-CDTA will start its work in the following countries (in order of priority, and in alignment with the TFFP expansion): Viet Nam, Indonesia, Philippines, Mongolia, Azerbaijan, and Afghanistan.³ Additional R-CDTA outputs and key activities related to monitoring, as noted below, will occur in those countries that are already active in the TFFP: Bangladesh, Cambodia, Pakistan, and Sri Lanka. The proposed R-CDTA will have the following ongoing outputs, starting in 2009 and ending in 2010.

² Financial Crisis Threatens Global Trade Flows, WTO Says. *Bridges Weekly Trade News Digest*, Volume 12, Number 39, 19 November 2008.

³ Priority of countries targeted may change according to demand.

1. Knowledge building in Developing Member Countries

a. DMC Banks

10. Consultants engaged under the R-CDTA will work in the field and conduct a total of 59 new bank assessments from 2009 through 2010. The following countries are expected to be covered: Indonesia, Philippines, Mongolia, Azerbaijan, Uzbekistan,⁴ Kazakhstan, and Turkmenistan. Through this work, ADB will undertake financial due diligence on banks⁵ to identify and characterize any gaps in the financial and technical capacity of individual DMC banks that would inhibit the provision of trade finance credit lines. Information derived from the R-CDTA will benefit DMC banks by specifically identifying where they lack capacity, and will enable ADB to provide capacity development in a manner that is tailored and specific to individual DMC banks and specific DMC banking systems.

11. Specifically, the R-CDTA activities will entail, but not be limited to, the following:

- (i) work with individual DMC banks to acquire financial data;
- (ii) analyze the financial information through financial, ratio, gap and other analyses;
- (iii) conduct due diligence on DMC banks through (a) meeting with banks; (b) assessing corporate governance, anti-money laundering policies, and management capabilities; and (c) asking questions related to performing a financial analysis;
- (iv) draft credit applications that are to be submitted to the TFFP; and
- (v) conduct a banking sector analysis for each DMC.

12. The principle of repeat engagement is important to this R-CDTA, which views capacity building in the medium and long term (i.e., something that cannot be achieved through a single engagement). As such, the R-CDTA proposes to conduct annual reviews of the same DMC banks. ADB will undertake yearly financial assessments (and/or quarterly covenant reviews). The annual reviews will help to solidify capacity development, and will create benchmarks enabling assessment of year-to-year improvements or declines in the capacity of a DMC to support trade finance credit lines. ADB expects 50 bank assessments will be conducted under the R-CDTA in 2009 and approximately 150 in 2010.

b. Seminars

13. Information on where individual banks lack capacity will be conveyed directly to those banks on a confidential basis. In addition, the R-CDTA proposes to disseminate more general information about capacity gaps to a larger audience within DMCs through in-country seminars to which DMC banks, government officials and international banks will be invited. ADB plans to conduct a total of five seminars over the course of the R-CDTA (in Viet Nam and Indonesia in 2009, followed by Philippines, Mongolia, and Azerbaijan).⁶

⁴ ADB is concerned about anti-money laundering policies in Uzbekistan. As such, the TFFP will only expand in this country once these concerns have been allayed.

⁵ The R-CDTA will target banks on which there is market demand for capacity development and will coordinate with the Trade Finance Facilitation Program in this regard.

⁶ Countries may change based on changing demand. These reviews may be conducted on banks already participating in the TFFP.

14. The seminar content will be based on aggregate capacity assessments and recommendations derived from financial analysis and due diligence of individual DMC banks, and will focus on the following:

- (i) the existence of capacity constraints in the banking system that inhibit and/or impede the maintenance or growth of trade finance credit lines to banks, such as capital adequacy, provisioning, credit quality (nonperforming loans), portfolio concentrations, liquidity management, and profitability;
- (ii) gaps and related recommendations with respect to transparency, corporate governance and general management strategies common to banks within a particular DMC, which may impede the maintenance or growth of trade finance credit lines;
- (iii) identified lack of capacity in marketing and general outreach to SMEs, as well as other companies that could be better served by a DMC's banking sector for the purpose of supporting trade with finance;
- (iv) enhancement of trade finance skills through discussion of various products used to mitigate risks in international trade;
- (v) provision of recommendations on how to address capacity gaps, both with respect to regulatory issues and bank-capacity issues; and
- (vi) creating an opportunity for DMC banks, government officials, and representatives from international banks to engage in an open dialogue concerning broader issues related to trade.

2. Partnership Development

15. In response to the current financial crisis, international banks have reduced and/or cut DMC and DMC bank trade finance credit lines. Therefore, it is critical that the R-CDTA work in the field, in coordination with the TFFP, to develop partnerships between international and DMC banks. Developing partnerships—such as correspondent banking relationships with international banks—is critical to fostering the financial support (trade finance credit lines) that underpins international and regional trade in DMCs.

16. ADB can approve TFFP credit lines to DMC banks through financial analysis and due diligence on DMC banks. These credit lines will provide international banks with guarantees that will leverage existing DMC/DMC bank limits available to support trade. The field work undertaken by R-CDTA will underpin the formation and maintenance of partnerships between DMC and international banks, especially when international banks have no available DMC limit and the ADB guarantee is provided on a 100% basis. Similarly, as TFFP guarantees and funding support specific trade transactions (through banks) between importers and exporters, the work financed through the proposed R-CDTA will foster partnerships between importing and exporting companies. By assessing the financial position of various DMC banks and through ADB's relationships and agreements with international banks, the R-CDTA will help to bridge the gap between DMC and international banks, and indirectly between exporting and importing companies. These relationships will support increased flows of capital and goods essential for economic activity. ADB anticipates that the capacity development supported through the R-CDTA will facilitate the formation and/or maintenance of 150 international bank relationships. In addition, through an activity not proposed for funding under the R-CDTA, the TFFP intends to start listing on its website all DMC banks accepted under the TFFP for which credit limits have been approved. Working in conjunction with the TFFP, the R-CDTA will explicitly and implicitly create the opportunity for those DMC banks to be considered as correspondent banks by international banks.

17. The TFFP expansion plans cover a multiyear period. Table 1 provides a summary of the projected R-CDTA outputs for the period of 2009–2010, and, for further information, for 2011 through 2013 (the latter are not covered under the proposed R-CDTA).

Table 1: Projected Outputs for Technical Assistance Over 5 Years

Item	2009	2010	2011	2012	2013
New Bank Assessments	50	9	9	9	8
Bank Monitoring Assessments	50	100	109	118	127
Seminars	2	3	3	3	3
International Bank Partnerships	10	20	30	40	50

Source: ADB Capital Markets and Financial Sectors Division—Trade Finance Facilitation Program.

C. Cost and Financing

18. The R-CDTA is estimated to cost \$6 million and will be financed on a grant basis jointly by (i) the Japan Special Fund (JSF), funded by the Government of Japan; and (ii) ADB's Technical Assistance Special Fund-IV (TASF-IV). For 2009, the R-CDTA will be financed from the TASF- IV (\$1 million) and the JSF (\$2 million). ADB will seek to secure funding for R-CDTA activities for 2010 onwards through external resources, the TASF-IV, and/or the JSF. The funds will cover remuneration, travel, and per diem for international consultants; conference-related expenditures; and miscellaneous expenses. A detailed cost breakdown and proposed financing plan are in Appendix 3.

D. Implementation Arrangements

19. ADB will be the executing agency for the R-CDTA. PSOD will administer and implement the R-CDTA. Disbursements under the R-CDTA will be made in accordance with ADB's *Technical Assistance Disbursement Handbook*.⁷ The R-CDTA will require approximately 253 person-months of work. ADB, in accordance with its *Guidelines on the Use of Consultants* (2007, as amended from time to time), will engage a total of 11 international consultants. It is anticipated that a firm will be employed; however, individual consultants may be used to provide input as required in the course of contract execution. The proposed selection method and weighting for quality- and cost-based selection (QCBS) is 80% quality and 20% cost. QCBS will be done on a full or simplified technical proposal basis. Outline terms of references are provided in Appendix 4.

20. The R-CDTA is expected to run for 24 months, from April 2009 to March 2011.

21. To disseminate information emanating from the R-CDTA, the most salient parts of the technical assistance completion report will be published.

⁷ ADB. 2008. *Technical Assistance Disbursement Handbook*. Manila.

IV. THE PRESIDENT'S RECOMMENDATION

22. The President recommends that the Board approve (i) ADB administering a portion of technical assistance not exceeding the equivalent of \$2 million to be financed on a grant basis by the Government of Japan through the Japan Special Fund, and (ii) ADB providing the balance not exceeding the equivalent of up to \$4 million for the Regional Capacity Development Technical Assistance for Trade Finance Capacity Development.

LINKS TO REGIONAL AND COUNTRY STRATEGY PROGRAMS AND COUNTRY OPERATIONS BUSINESS PLANS

1. As noted, the proposed regional trade finance capacity development technical assistance (TA) addresses a number of developmental themes central to the priorities of the Asian Development Bank (ADB): fostering intraregional trade; focusing on low-income countries; supporting small and medium-sized enterprises (SMEs); and helping to mitigate the impact of the global financial crisis on low-income countries. The Trade Finance Facilitation Program (TFFP) also supports two of the five drivers of change cited in ADB's long-term strategic framework 2008–2020 (Strategy 2020):¹ (i) private sector development and private sector operations, and (ii) partnerships. It also focuses on two of the five core ADB specializations supporting Strategy 2020: (i) regional cooperation and integration, and (ii) finance sector development. Furthermore, it supports two pillars of the Regional Cooperation and Integration Strategy: (i) trade and investment cooperation and integration (pillar 2); and (ii) monetary, financial cooperation, and integration (pillar 3).²

2. The proposed R-CDTA is directly linked to a number of the strategies and business opportunities presented in country partnership strategies (CPSs), regional cooperation strategy and programs (RCSPs), and country operations business plans (COBPs) for ADB's DMCs. A review of these documents underscores the importance of trade finance capacity building in DMCs to enable ADB to meet its development objectives. The following is an overview of the links to some of the CPSs, COBPs, and RCSPs.

A. Bangladesh

3. ADB's key objective for Bangladesh, as articulated in the 2006–2010 country strategy paper (CSP), is to help the country address critical constraints to broad-based economic growth, social development, and good governance. The strategy, implemented in conjunction with the World Bank, the Department for International Development of the United Kingdom, and the Government of Japan, focuses specifically on the following: (i) improving the investment climate for private sector-led growth and employment, (ii) advancing the social development agenda to empower the poor; and (iii) addressing key governance issues on a sector and thematic basis. ADB's private sector activities will complement those of the public sector and catalyze private sector investment in support of key infrastructure projects and the finance sector. Through the current business plan—as set forth in the COBP for 2009–2011—ADB will continue to support investment as well as policy and institutional reforms in the energy, transport, education and integrated urban infrastructure sectors. ADB will also continue to support SMEs and the finance sector. The CSP notes that ADB's past programs and projects in Bangladesh have been most successful and sustained when they have been combined with capacity building. Consequently, the focus in coming years will be on building country capacity and a skills base among government agencies and local experts.

4. The R-CDTA directly supports the strategy of the CSP and COBP through the combination of capacity building and finance sector development through the TFFP. The program will enhance the capabilities of local banks to identify gaps in the financial and technical capacity of individual DMC banks that would inhibit the provision of trade finance credit lines and provide feedback on these issues. Additionally, through the seminars, the R-CDTA will

¹ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank 2008–2020*. Manila.

² ADB. 2006. *Regional Cooperation and Integration Strategy*. Manila.

aim to strengthen the capacity of government officials to address broader trade development issues. The R-CDTA will also support improvements in the investment climate for growth and employment led by the private sector. By increasing the capacity of local banks, the climate for the private sector will improve with respect to attracting foreign bank interest and expanding financing to local businesses. Finally, the R-CDTA will complement two specific public sector initiatives in the COBP: (i) the Development of Transport Corridor for Trade Facilitation Project (to be developed in 2009, it will strengthen physical infrastructure for trade); and (ii) the SME Sector Development Program II (it will focus on enhancing infrastructure development and access to finance for SMEs, strengthen the capacity of organizations working for SME development, and boost the capacity of the SME workforce). The R-CDTA will further help to increase trade and the volume of goods traffic between Bangladesh and other countries in the region by increasing the ability of SMEs to access trade finance, thus supporting job creation and increasing trade along transport corridors in Bangladesh.

B. Indonesia

5. The current CSP for Indonesia seeks to address constraints to achievement of the Government of Indonesia's goals of supporting pro-poor, sustainable economic growth, and promoting social development.³ The CSP highlights past constraints, including an adverse investment climate, poor physical infrastructure, an underdeveloped finance sector, weak decentralized capacities, poor public sector and natural resource management, and low development spending. Based on these constraints, ADB is focusing on the following activities: (i) improving infrastructure and related services through increased public and private sector investment; (ii) deepening the finance sector; (iii) improving decentralization with greater regional spending; (iv) accelerating the achievement of Millennium Development Goals; and (v) strengthening environmental and natural resources management. Trade finance is a priority onlending program that has been highlighted in support of ADB's goals with respect to finance sector development.

6. The R-CDTA will support ADB's strategic and business objectives in Indonesia. First, it develops the capacity and eligibility of Indonesian banks and the government to receive trade financing, both from private international sources/banks and from ADB's TFFP. Second, by laying the foundations for increased trade finance and trade, it helps address job creation, which is a constraint to pro-poor economic growth. The CSP states that since 1997 most jobs have been created in the informal sector and through SMEs, while job creation in trade, manufacturing, and services has stagnated. Moreover, the CSP notes that overcoming these constraints is critical if Indonesia is to respond to labor market mobility and trade liberalization in the Association of Southeast Asian Nations Free Trade Area. Through capacity building, this R-CDTA will support the growth of trade in Indonesia, which will spur job creation in the trade sector. The R-CDTA also helps increase regional cooperation and integration, which is a goal of the CSP. The CSP notes that ADB will help plan development projects with Indonesian national and regional significance, including trade facilitation.

C. Philippines

7. The country strategy for the Philippines, as embodied in the 2009–2010 COBP (which extends the 2005–2007 CSP), focuses on supporting fiscal consolidation, improving the investment climate in the Philippines, and accelerating attainment of the Millennium

³ ADB. 2006. *Country Strategy and Program (Indonesia): 2006–2009*. Manila (October).

Development Goals.⁴ Three of the five core areas of Strategy 2020 are incorporated in the current country strategy: support for environment, infrastructure, and development of the finance sector. With respect to the private sector, operations will target infrastructure and finance sector initiatives. Infrastructure projects are expected to include power and transmission, renewable energy, water supply, and port operations. Regarding the finance sector, the COBP states that ADB will seek opportunities to (i) provide loans to domestic banks or nonbank finance companies to support microfinance and SMEs, (ii) support asset-backed securitizations, and (iii) provide partial credit guarantees to support lending to SMEs.

8. The R-CDTA supports the strategic plans and objectives of the COBP and the CSP in numerous ways. First, the CSP notes that ADB's public and private sector operations will reinforce fiscal consolidation by (i) placing less demand on public resources, (ii) reducing pressure on public debt by allowing the Government access to foreign and local funds at competitive spreads and for longer maturities, and (iii) reducing the need for public spending by "crowding in" private participation. Enhancing the absorptive capacity of ADB's DMCs (including, in this case, the Philippines) for trade finance will decrease pressure on public resources—particularly in times of economic crisis, when sources of funds become constrained—by enabling alternative, nongovernment funding of projects in a number of sectors. Enhancing the ability of banks in the Philippines to attract trade finance and international partners will have the effect of crowding in the private sector, which is a stated objective of the CSP. Finally, enabling banks to gain access to trade finance will help to directly support infrastructure and SME business opportunities, which are targeted growth segments articulated in the COBP.

D. Sri Lanka

9. ADB's strategic focus for Sri Lanka is to strengthen the investment climate in the country and achieve socially inclusive development. The CPS for 2009–2011 states that ADB will support governance programs and private sector development through improvements in the investment climate. To strengthen the investment climate, ADB will (i) improve macroeconomic management, (ii) introduce regulatory frameworks for private sector investments relating to public-private partnerships, and (iii) increase the provision of economic infrastructure. ADB and the World Bank conducted a joint investment climate assessment in 2005; as noted in the CPS, the assessment concluded that the private sector is constrained by weak infrastructure and a lack of access to finance. Thus, ADB's strategy for supporting expansion of the private sector will be to target higher levels of private investment and upgrade infrastructure, particularly in the transport and power sectors. With respect to socially inclusive development, ADB will expand access to high-quality services in the water, transport, and power sectors, and improve access to education.

10. The CPS notes that there is potential for Private Sector Operations Department to expand its presence in Sri Lanka through investments and financing in support of the aforementioned strategy and targets. Specifically, future opportunities include power generation and port terminals. The CSP also highlights the current efforts of ADB's TFFP. Expansion of the TFFP will allow ADB to support additional financing and guarantees to banks in Sri Lanka, which will help improve the investment climate through access to finance. The R-CDTA is critical to the TFFP's ability to expand its activities in Sri Lanka by enhancing bank capacity; this will improve the investment climate and allow access to funds, which are two of ADB's key objectives in Sri Lanka.

⁴ The Philippines CSP for 2005–2007 is the current CSP. In 2008, ADB and the Government agreed to extend the CSP through the COBP for 2009–2010.

E. Central Asia Regional Economic Cooperation

11. The RCSP for 2006–2008 on the Central Asia Regional Economic Cooperation (CAREC) specifically focuses on trade as one of the program's three building blocks in its efforts to alleviate poverty in the region.⁵ CAREC is a multi-institutional initiative, and participants have undertaken specific initiatives in order to efficiently achieve CAREC's aims. ADB is tasked with trade facilitation and transport issues, while the International Monetary Fund is responsible for trade policy.

12. The trade facilitation program of CAREC comprises two components aimed at reducing trade costs by (i) promoting concerted customs reform and modernization; and (ii) supporting an integrated trade facilitation approach through efficient regional logistics development, better focus on priority trade corridors, enhanced interagency cooperation and public–private partnerships, and support for the joint transport and trade facilitation strategy.⁶ The primary ADB technical assistance (TA) that supports facilitation of trade in CAREC is the Integrated Trade Facilitation Support for Central Asia Regional Economic Cooperation.⁷

13. The proposed R-CDTA will complement the efforts undertaken to date by the public sector under the RCSPU. As noted, there have been a number of initiatives that address improvement of the environment for trade and trade finance in the region. The program will leverage the work that has been completed, which lays the foundation for a better trade environment. Furthermore, it will strengthen the role of the private sector, thereby increasing trade activity in the region, which is the ultimate goal of the RCSP.

F. Greater Mekong Subregion

14. The RCSP for the Greater Mekong Subregion (GMS) for 2007–2009 aims to improve regional cooperation and integration in the GMS to foster greater economic prosperity and reduce poverty. The strategy has four pillars: (i) strengthening connectivity and facilitating cross-border movement and tourism; (ii) integrating national markets to promote economic efficiency and private sector development; (iii) addressing health and other social, economic, and capacity-building issues associated with subregional links; and (iv) managing the environment and shared natural resources to help ensure sustainable development and conservation of natural resources.⁸ In coordination with the RCSP, the GMS COBP for 2009–2011 focuses on projects that boost physical and power connectivity in the region, and promote health and safeguard the environment. Additionally, project preparatory TA for trade facilitation and logistics development is planned for 2009.

⁵ ADB. 2005. *Central Asia Regional Cooperation Strategy and Program Update: 2006–2008*. Manila (October). The Central Asia Regional Economic Cooperation (CAREC) was established in 1997 and is a joint institutional effort by the European Bank for Reconstruction and Development, the International Monetary Fund, the Islamic Development Bank, the United Nations Development Programme, and the World Bank. Participating countries are Afghanistan, Azerbaijan, People's Republic of China, Kazakhstan, Kyrgyz Republic, Mongolia, Russian Federation, Tajikistan, and Uzbekistan. The initiative focuses on trade, transport, and energy.

⁶ CAREC. 2008. *Regional Trade Facilitation and Customs Cooperation Program in Support of Joint Transport and Trade Facilitation Strategy*. Paper submitted to the Seventh Ministerial Conference on Central Asian Regional Economic Cooperation. Baku (November).

⁷ ADB. 2007. *Integrated Trade Facilitation Support for Central Asia Regional Economic Cooperation*. Manila (R242-07, 26 November).

⁸ ADB. 2006. *The Greater Mekong Subregion – Beyond Borders (2007–2009)*. Manila (August).

15. The R-CDTA is aligned with the current program set forth in the COBP for 2009–2011 and directly supports the development goals as articulated in the RCSP. Specifically, it will address objectives (i) and (ii), as noted above. The R-CDTA will help to facilitate cross-border movement and increase the role of the private sector in the region by increasing the likelihood that DMC banks will be able to access trade finance, which will in turn encourage local businesses to engage in intraregional as well as international trade. The R-CDTA will also benefit from specific projects that have been or will be undertaken by the public sector in the GMS, such as TA for Enhancing Transport and Trade Facilitation in the Greater Mekong Subregion, which seeks to improve transport and trade facilitation through improvement in regulatory procedures relating to trade, transport, and logistics services that are critical for trade.⁹

⁹ ADB. 2006. *Technical Assistance for Support to Trade Facilitation and Capacity Building in the Greater Mekong Subregion*. Manila (TA 6328-REG).

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Impact Sustained economic growth and improved living standards through the expansion of international and intraregional trade</p>	<p>From 2009 through 2010, (i) during the current financial crisis, maintain trade activity where ADB's Trade Finance Facilitation Program (TFFP) is operational; and (ii) expand trade activity in each DMC as developed economies (the major source of exports for DMCs) recover.</p>	<p>TFFP statistics and/or national macroeconomic statistics</p>	<p>Assumptions Continued demand for trade finance Continued availability of trade finance Continued government support for trade finance and trade</p> <p>Risks Increased protectionism leads to collapse of international trade Global recession is protracted</p>
<p>Outcome Trade finance capacity enhanced in DMCs and DMC banks, resulting in increased trade finance activity and participation in the TFFP</p>	<p>Share of banks receiving trade finance within each targeted DMC increases by approximately 150% from 2009–2010.</p> <p>No fewer than 50 additional banks added to the TFFP program</p> <p>Increased government awareness of trade finance issues affecting commercial banks</p> <p>Trade finance activity increases by approximately 15% among international banks and local DMCs</p>	<p>ADB statistics</p> <p>TFFP statistics</p> <p>Feedback and discussion at ADB seminars and from commercial banks</p> <p>ADB statistics on risk sharing agreements executed</p>	<p>Assumptions Continuing interest by DMC banks in enhancing their capacity for trade finance Governments remain committed to facilitating trade Continued access to trade finance</p> <p>Risks Protracted global recession has major impact on health of banking sector and businesses engaged in trade Government interest and support of trade finance issues is weak and/or policies become protectionist International banks become extremely risk averse due to current financial crisis</p>

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p>Outputs</p> <p>1. Knowledge building</p> <p>2. Partnership development</p>	<p>Financial due diligence conducted on approximately 59 new banks from 2009 through 2010</p> <p>No fewer than approximately 150 bank monitoring assessments undertaken from 2009 through 2010</p> <p>Seminars in five countries, with seminars conducted in Viet Nam and Indonesia in 2009</p> <p>No fewer than approximately 2,390 trade finance transactions will take place by 2011, with international and DMC banks involved in each transaction</p> <p>Seminars conducted in Viet Nam, Indonesia, among other countries</p>	<p>TFFP program reports</p> <p>TFFP program reports</p> <p>TFFP program reports</p> <p>TFFP program reports</p> <p>TFFP program reports</p>	<p>Assumptions</p> <p>Banks are willing and can provide timely data and information to ADB in order to conduct due diligence.</p> <p>Government officials, banks, and international banks are interested in attending seminars and discuss trade-related issues</p> <p>Risks</p> <p>Lack of good data from banks, particularly in some of the least-developed DMCs</p> <p>Protracted global recession has major impact on health of banking sector and businesses engaged in trade, leading to weak financials</p> <p>International banks become extremely risk averse due to current financial crisis and do not engage in trade transactions with DMCs</p>
<p>Activities with Milestones</p> <p>1.1 Acquire information required to conduct financial analyses of DMC banks being considered under the TFFP.</p> <p>1.2 Acquire information required to conduct financial analyses of existing banks under the TFFP.</p> <p>1.3 Perform financial analyses and due diligence.</p> <p>2.1 Based on findings of financial analyses and due diligence, conduct seminars in DMCs on issues pertaining to trade development</p> <p>3.1. Draft credit reports/applications for TFFP review and internal approval</p> <p>4.1 Subject to internal approval, sign TFFP agreements with DMC banks for the provision of credit enhancements and financing.</p> <p>5.1 Administer transactions and carefully monitor ADB's exposure to each DMC bank</p> <p>5.2 Conduct annual reviews and monitor the lending practices, financial management, governance, and other matters</p>			<p>Inputs</p> <p>Approximately 253 person-months of international consulting services</p> <p>Japan Special Fund (JSF) financing of \$2,000,000 for 2009</p> <p>Technical Assistance Special Fund financing of \$1,000,000 equivalent for 2009; and \$3,000,000 for 2010 in the event other sources are not available</p>

ADB = Asian Development Bank, DMC = developing member country, TFFP = Trade Finance Facilitation Program.

COST ESTIMATES AND FINANCING PLAN, 2009–2010
(\$)

Item	Total Cost
A. Asian Development Bank^a	
1. Consultants	
a. Remuneration	
i. International Consultants	\$1,833,333.0 ^c
b. International and Local Travel and Per Diem	115,333.0
2. Seminars	1,067.0
a. Seminar Program	267.0
3. Miscellaneous Administration and Support Costs	667.0
4. Contingencies	49,333.0
Subtotal (A)	\$2,000,000.0
B. Asian Development Bank^b	
1. Consultants	
a. Remuneration	
i. International Consultants	\$3,666,667.0
b. International and Local Travel and Per Diem	230,667.0
2. Seminars	2,133.0
a. Seminar Program	533.0
3. Miscellaneous Administration and Support Costs	1,333.0
4. Contingencies	98,667.0
Subtotal (B)	\$4,000,000.0
Total	\$6,000,000.0

^a Financed by the Japan Special Fund, funded by the Government of Japan.

^b Financed by the Asian Development Bank's technical Assistance funding program (Technical Assistance Special Fund-IV).

^c As per the 6 August 2008 memo from Central Operations Services Office setting forth recommendations for budget for TA and staff consultant services, budgeting \$24,000 per month (or \$288,000 per 12 person-months) for an international consultant is recommended. With an estimated 11.5 person-months required, the amount would total \$276,000 per consultant. However, it is estimated that a consultant with adequate experience and knowledge can be retained for \$250,000 per year. In the event that a consultant cannot be hired at this rate, the budget contains an amount for contingencies.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

1. It is expected that under the proposed regional capacity development technical assistance for trade finance capacity development (the R-CDTA) a reputable consultancy firm will be hired to undertake the capacity building as described below and provide the outputs referred to in the design and monitoring framework and detailed in the following terms of reference. Individual consultants may be engaged for some R-CDTA components, as and when required.

A. Ten Bank Financial Analysis Experts (ten international consultants for 11.5 person-months per annum each over 2 years; total of 230 person-months)

1. Objective and/or Purpose of the Assignment

2. This assignment is designed to: (i) through financial analysis and due diligence, identify capacity gaps that impede developing member country (DMC) banks from maintaining and accessing trade finance credit lines; (ii) based on the results of the financial analysis and due diligence, recommend if specific DMC banks are suitable for participation in the Trade Finance Facilitation Program (TFFP); (iii) identify measures to enhance capacity to access/maintain/enhance trade finance credit lines from international banks; and (iv) through the lead consultant, coordinate field work with the TFFP and the Risk Management Unit (RMU), to ensure the R-CDTA efforts complement TFFP expansion.

3. The objective of the R-CDTA is to increase the readiness or capacity of Asian Development Bank (ADB) DMCs to utilize critically needed trade finance, so that trade finance can cushion the alarming decline in international trade in the midst of the current global economic crisis. More specifically, the R-CDTA will assess whether (i) banks are creditworthy and have the knowledge to make use of trade finance facilities; and (ii) government officials, industry participants, and international banks have open communications, to ensure trade related issues are addressed in a constructive and supportive manner.

2. Scope of Work

4. International consultants will work in the field with DMC banks located throughout Asia and the Pacific, which will require extensive travel. They will also coordinate with various regional departments within ADB, the TFFP (within the Private Sector Operations Department) and RMU.

5. To identify capacity gaps hindering the ability to maintain and attract higher levels of trade finance, and to garner the maximum development effect from an expansion of the TFFP, capacity building will focus on (i) financial analysis, (ii) due diligence, (iii) writing of credit applications/reports, and (iv) conducting seminars for knowledge-sharing.

3. Detailed Tasks

6. Detailed tasks to be undertaken by the consultants is as follows:

- (i) acquire financial information on targeted DMC banks;
- (ii) spread information into ADB's risk-rating model;
- (iii) conduct financial, ratio, gap, and other analyses of financial information;

- (iv) conduct due diligence on DMC banks by (a) meeting with banks; (b) assessing corporate governance, anti-money laundering policies, and management capabilities; and (c) asking questions that arise from the financial analyses;
- (v) based on the information accumulated from the above tasks, draft credit applications to TFFP and RMU for consideration/endorsement of limits;
- (vi) draft and submit a banking-sector analysis for each DMC; and
- (vii) provide feedback and inputs, as necessary, to the lead consultant with respect to organizing seminars.

4. Output/Reporting Requirements

7. Outputs and Reporting required under the R-CTDA by the consultants will be as follows:

- (i) submit 50 annual reviews and 50 credit applications (in 2009),
- (ii) submit 100 annual reviews and 9 credit reports in 2010, and
- (iii) submit a total of 11 banking sector analyses for 2009 and 2010.

B. One Lead Consultant for Ten Bank Financial Analysis Experts (international, 11.5 months per annum for 2 years; total of 23 person months)

1. Objective/Purpose of the Assignment

8. A lead consultant is required to oversee necessary capacity building in DMCs to expand ADB's TFFP.

2. Scope of Work

9. The lead consultant will: (i) act as ADB's primary point of contact with the 10 banking financial analyst consultants; (ii) provide quality control and coherence to the work being conducted by the 10 bank financial analysts, as provided above; and (iii) organize and conduct seminars in coordination with ADB staff to ensure effective knowledge sharing with DMCs.

3. Detailed Tasks

10. Detailed tasks of the consultant will be as follows:

- (i) act as ADB's main point of contact for the 10 bank financial analysts (detailed in Section A), maintain regular contact with ADB, and coordinate/disseminate information in both directions;
- (ii) set work schedules and ensure deadlines are met;
- (iii) review draft and final draft credit applications produced by the bank financial analysts;
- (iv) provide quality control and ensure the coherence of the work of the other consultants;
- (v) coordinate with ADB and appropriate government and finance sector DMC entities to arrange dates and other logistics for seminars to disseminate findings from the DMC bank and DMC banking sector analyses; and
- (vi) organize and conduct seminars with ADB staff.

4. Output/Reporting Requirements

11. Output and reporting requirements for the consultant will be as follows:
 - (i) provide regular reports and updates on work progress by the bank financial analysts;
 - (ii) submit good quality, cohesive annual reviews (50 in 2009, 100 in 2010), credit applications (50 in 2009, nine in 2010), and banking sector analyses (four in 2009, five in 2010); and
 - (iii) conduct knowledge-sharing seminars with banking and government officials: two in 2009, and three in 2010.