Report and Recommendation of the President to the Board of Directors

Proposed Supply Chain Finance Program

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Asian Development Bank
ABBREVIATIONS

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
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<tbody>
<tr>
<td>ADB</td>
<td>Asian Development Bank</td>
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<td>ADF</td>
<td>Asian Development Fund</td>
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<td>DMC</td>
<td>developing member country</td>
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<td>FI</td>
<td>financial institutions</td>
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<td>IT</td>
<td>information technology</td>
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<td>PFI</td>
<td>partner financial institution</td>
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<td>SCF</td>
<td>supply chain finance</td>
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<td>SMEs</td>
<td>small and medium-sized enterprises</td>
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<td>TA</td>
<td>technical assistance</td>
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<tr>
<td>TFP</td>
<td>Trade Finance Program</td>
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NOTE

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

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<thead>
<tr>
<th>Role</th>
<th>Name</th>
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<tr>
<td>Vice-President</td>
<td>L. Venkatachalam, Private Sector and Cofinancing Operations</td>
</tr>
<tr>
<td>Director General</td>
<td>P. Erquiaga, Private Sector Operations Department (PSOD)</td>
</tr>
<tr>
<td>Director</td>
<td>C. Engstorm, OIC, Capital Markets and Financial Sectors Division, PSOD</td>
</tr>
<tr>
<td>Team leader</td>
<td>S. Beck, Senior Investment Specialist, PSOD</td>
</tr>
<tr>
<td>Team members</td>
<td>S.J. Brett, Investment Specialist, PSOD</td>
</tr>
<tr>
<td></td>
<td>S. Durrani-Jamal, Senior Economist, PSOD</td>
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<tr>
<td></td>
<td>A. Hirose, Assistant General Counsel, Office of the General Counsel</td>
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<td></td>
<td>E. Mangampat, Investment Officer, PSOD</td>
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<td>V. Medina, Safeguards Officer, PSOD</td>
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<td>A. Porras, Safeguards Officer, PSOD</td>
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<tr>
<td></td>
<td>S. Shinozaki, Financial Sector Specialist (SME Finance), Office of Regional Economic Integration</td>
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In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.
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## PROGRAM AT A GLANCE

1. **Project Name:** Supply Chain Finance Program  
2. **Project Number:** 46920

3. **Country:** REG  
4. **Department/Division:** Private Sector Operations Department  
   Capital Markets and Financial Sectors

### 5. Sector Classification:

<table>
<thead>
<tr>
<th>Primary</th>
<th>Subsectors</th>
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<tr>
<td>Finance</td>
<td>Banking systems, small and medium-sized enterprises finance and leasing</td>
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### 6. Thematic Classification:

<table>
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<tr>
<td>Economic growth</td>
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<td>Private sector development</td>
<td>Private sector investment</td>
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#### 6a. Climate Change Impact:

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#### 6b. Gender Mainstreaming:

<table>
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<th>Gender equity theme</th>
<th>Effective gender mainstreaming</th>
<th>Some gender benefits</th>
<th>No gender benefits</th>
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### 7. Targeting Classification:

<table>
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<th>Targeted Intervention</th>
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<tr>
<td>Geographic dimensions of inclusive growth</td>
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<tr>
<td>Millennium development goals</td>
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<tr>
<td>Income poverty at household level</td>
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### 8. Location Impact:

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<td>Medium</td>
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<td>National</td>
<td>Medium</td>
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<td>Regional</td>
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### 9. Nonsovereign Operation Risk Rating:

Supply Chain Finance Program portfolio rating to average no lower than BB

### 10. Safeguard Categorization:

<table>
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<th>Environment</th>
<th>FI (treated as C)</th>
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<td>Involuntary resettlement</td>
<td>FI (treated as C)</td>
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<td>Indigenous peoples</td>
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### 11. ADB Financing:

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<th>Sovereign/Nonsovereign</th>
<th>Modality</th>
<th>Source</th>
<th>Amount ($ million)</th>
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<tr>
<td>Nonsovereign</td>
<td>loans and guarantees</td>
<td>OCR</td>
<td>200.0</td>
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### 12. Cofinancing:

Commercial cofinancing will be at least equal to ADB OCR amount.

### 13. Counterpart Financing:

Not applicable

### 14. Aid Effectiveness:

Not applicable
I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed Supply Chain Finance Program of up to $200,000,000—or its equivalent in local currency acceptable to the Asian Development Bank (ADB)—under which guarantees to and debt financing through partner financial institutions (PFIs) would be extended to provide working capital to developing member country (DMC) companies.¹

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

2. Availability of reliable financial services to facilitate trade plays a vital role in trade-driven economic growth and poverty alleviation. Two such services are trade finance and supply chain finance (SCF). To respond to the high but unmet demand for these services, ADB established the Trade Finance Program² (TFP), which provides guarantees and loans to banks to facilitate cross-border trade, and is now seeking to set up a program that would supply guarantees and funding for domestic and international SCF transactions. The program aims to broaden access to working capital for DMC companies, and thereby facilitate business expansion and job creation, the ultimate drivers of economic growth and poverty alleviation.

3. There are three primary participants in a supply chain of producing and distributing goods: (i) an “anchor,” which may act as either a buyer or a seller of manufactured goods and is typically a large corporate entity; (ii) a supplier, which produces and ships manufactured goods to the anchor; and (iii) a distributor, which buys manufactured goods from the anchor for onselling to retailers. Under the program, it is anticipated that most (but not all) anchors will be domiciled in a developed country and that most suppliers and distributors will be small and medium-sized enterprises (SMEs) located in ADB’s DMCs.

4. There are three main SCF products: (i) post-shipment or post-acceptance finance, in which the supplier ships goods that are accepted by the corporate anchor, who in turn acknowledges its obligation to pay by a specific date, at which point a financial institution pays the supplier, followed by direct payment by the anchor to the financial institution on the specified future date; (ii) pre-shipment or pre-acceptance finance, where financing is provided before goods are accepted by the anchor, and in some cases even before shipment takes place; and (iii) distributor finance, where financing for downstream distributors is provided to cover the business cycle, or the time it takes the distributor to sell and be paid for goods purchased from an anchor. The following diagram illustrates a basic supply chain. A description of each product and attendant risk parameters is in Supply Chain Finance Products and Their Risk Parameters.³ Also see Diagram of Post-Shipment or Post-Acceptance Supply Chain Finance Program on how post-shipment or post-acceptance SCF works.⁴

¹ The design and monitoring framework is in Appendix 1.
³ Supply Chain Finance Products and Their Risk Parameters (accessible from the list of linked documents in Appendix 2).
⁴ Diagram of Post-Shipment or Post-Acceptance Supply Chain Finance Program (accessible from the list of linked documents in Appendix 2).
5. Unlike the advanced “just-in-time” efficiencies obtained in the physical supply chain from 1990-2012, the financial supply chain still is primarily a manual, non-integrated, and inefficient process. Under the current system, cash flow for working capital is trapped in the supply chain, inhibiting the ability of DMC companies to expand and create more jobs. For example, having to wait 30–180 days post-shipment for payment may mean having to shut down operations and delaying the processing (or acquisition) of other contracts in the meantime. Receiving cash flow even just 30 days earlier could make a substantial difference—DMC companies would have a steady flow of working capital to maintain production capacity, retain staff, and ultimately expand operations and employ more people.

6. This suboptimal financial supply chain has been exacerbated by the ongoing global economic downturn. Tighter credit conditions have resulted in anchors putting more and more pressure on suppliers to extend payment terms and distributors to shorten payment terms, which in turn has made business expansion exceedingly difficult or impossible. Razor-thin margins also make it harder to accommodate further requests to extend payment terms. Without better access to working capital, suppliers and buyers are at risk of losing trade contracts, and generally have less cash flow available to expand operations and create jobs.

7. The program aims to offer an efficient means of managing financial supply chains that would improve access to affordable working capital, and in some cases provide access to finance for companies in DMCs that would otherwise not be considered “bankable”. One of the key features of the program, at least as it relates to post-shipment or post-acceptance finance, is that trade receivables are discounted based on the anchor’s credit rating, as opposed to the supplier’s. For this reason, the program can provide DMC suppliers with a cheaper source of working capital, and earlier than would otherwise be the case.

8. SCF is a relatively new trade service and few providers of such services are in the market. The scarcity of market participants is further compounded by the limited scope of their SCF programs, mainly due to (i) tight capital positions—the result of deleveraging, more stringent regulatory requirements, and higher capital requirements for banks; (ii) slow uptake of the new approach to assessing risk, which focuses on the strength of a supply chain

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relationship (i.e., supplier–anchor, anchor–distributor) rather than financials and collateral; and (iii) high costs of developing information technology (IT) infrastructure to support SCF services.

9. The program aims to boost PFIs’ capital and risk-bearing capacity, thereby furthering their ability to be more active in providing SCF to suppliers and distributors in ADB’s DMCs. The program would provide additional resources for SCF to support DMC companies. The TFP is increasingly called on to provide more support to fill widening financing gaps. To support job creation in DMCs and, ultimately, sustainable economic growth and poverty reduction in DMCs, it is important that ADB now lend its capacity to filling market gaps for SCF. The program will enable ADB to unlock financial resources caught in the supply chain. These resources will support domestic and cross-border transactions for the benefit of private sector development, SMEs, and job creation.

B. Program Description

10. This will be ADB’s first SCF program. It entails the provision of guarantees to and debt financing (both without a government guarantee) through PFIs to support payments throughout the supply chain, and will (i) enable companies traditionally not deemed bankable to receive finance, (ii) improve cash flow to enable growth and job creation, and (iii) encourage more financial institutions to develop and broaden SCF.

11. ADB will provide partial guarantees to and debt financing through PFIs that offer SCF to suppliers and distributors in ADB’s DMCs of up to $200,000,000 at any time. Such financing support will be on a rolling basis. Guarantees would be provided to PFIs and cover the risk of nonpayment by an obligor, which may be a supplier, a distributor, or an anchor. Therefore, under these guarantees, ADB’s payment obligations will arise upon nonpayment of the supplier, anchor, or distributor obligation. Under the proposed debt-financing arrangements, ADB will advance short-term loans through PFIs to DMC suppliers and distributors. These loans will be matched in equal or greater amounts by the PFI to the same borrower. A payment default to the PFI would give rise to a pass-through nonpayment of ADB’s debt service. ADB would rely on the recovery process of the PFI for recourse against any defaulting party. Any amounts recovered would be shared on a pro rata basis. In contrast to the TFP, ADB will not take credit risk on the PFI, but on the parties to the underlying supply transactions.

12. Different FIs have different SCF product capabilities, largely distinguished by an individual FI’s risk appetite, presence in DMCs, and monitoring capabilities. ADB will select suitable PFIs and determine which SCF products would be appropriate for ADB participation with a particular PFI. Assessment of an individual PFI’s suitability per SCF product will largely be based on its alignment with eligibility criteria for SCF products provided in Supply Chain Finance Products and Their Risk Parameters (footnote 3) and on the PFI’s capability to assess and monitor transactions under a particular SCF product portfolio. The scope of the program’s engagement with a PFI will be tailored to that PFI’s capabilities.

13. The program will be regional and aims to encompass as many DMCs as possible, including those benefiting from Asian Development Fund (ADF) resources. However, it should be noted that most SCF flows occur in the People’s Republic of China, India, Indonesia, Sri Lanka, and Viet Nam. While ADB will make every effort to diversify its geographic exposure and support, the program will nonetheless be linked to where PFIs have SCF exposure.

14. A related technical assistance (TA) to the program may be proposed to develop ADF DMC markets for more SCF engagement. DMC companies have limited familiarity with SCF
and its IT requirements, and an SCF TA targeted to ADF DMC companies may be important to enable geographic diversification of the program. Rather than implementing related TA at this point, it would be more prudent to do so after some experience in operating the program, which will allow better tailoring and targeting of any TA.

C. **Business Overview and Strategy**

15. A survey of over 20 banks and due diligence for this program confirmed unmet demand for SCF and requests for ADB partnership to help fill the gap. There are no specific figures quantifying the gap, but the anecdotal evidence is compelling. Requests from potential PFIs exceed the proposed $200,000,000 program amount by more than three times.

16. The program will further ADB’s ability to support private sector growth, especially among DMC companies and more particularly SMEs. ADB has made substantial progress in supporting trade through the TFP, but this is limited to assuming bank risk for cross-border transactions. The program will complement the TFP by assuming nonbank commercial risks for both cross-border and domestic transactions.⁶

17. Strategically, the two programs are an excellent fit, being complementary but distinct. ADB has no experience in SCF and, while it is an excellent strategic and “developmental” complement to the TFP, SCF risk is considerably different. ADB does not yet have the expertise or human resources to provide the significant TA and monitoring that would be required to support the start-up of a commercial bank’s SCF program. Therefore, it is proposed that ADB enter this market prudently, extending its involvement over time as its knowledge, expertise, and experience in SCF become substantial. Furthermore, it is proposed that the program initially provide support through PFIs that already have well-established SCF portfolios. ADB should try to start with the post-acceptance SCF product before moving into other products. Moreover, the program would benefit from the experience and relationships that ADB developed through the TFP, and SCF partnerships should be structured along similar lines.

18. During the program, ADB will evaluate whether changes to the structure and other parameters should be contemplated to ensure maximum development impact and success. Complementary TA will also be considered during the review, if not sooner.

D. **Ownership, Management, and Governance**

19. ADB will seek to include in the program as many PFIs as practicable. Prospective PFIs will be evaluated based on high standards of corporate governance and integrity, management caliber, financial soundness, and operational capability. ADB will take into consideration the quality of the prospective PFI’s existing SCF portfolio as well as its procedures for assessing and mitigating risk (including environmental and social risk) and such policies and procedures as pertain to due diligence and evaluation of suppliers, anchors, and distributors.

20. While ADB will not assume credit risk on PFIs, it will assume some operational risk on PFIs and will therefore consider their overall credit standing, which takes account of operational and due diligence capabilities. As such, ADB will target PFIs with international or local ratings of

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⁶ Comparison Between Trade Finance Program and Supply Chain Finance Program (accessible from the list of linked documents in Appendix 2)
A– or better. Eligible PFIs will be approved by ADB’s Investment Committee, which will take into consideration all parameters mentioned above.

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

21. Under the program, ADB will provide guarantees to and debt financing through PFIs that offer SCF to suppliers and distributors in ADB’s DMCs. It is proposed that the program terminate after 5 years and that, in any case, all ADB’s obligations and liabilities under the program be discharged by 31 August 2018. Financing of all forms under the program will not exceed $200,000,000 at any time and will be provided on a rolling basis. PFIs will assume at least an equal amount of risk to ADB under the program.

B. Implementation Arrangements

22. Reporting arrangements. ADB will administer the program along the lines that are already familiar under the TFP. PFIs will be required to provide ADB with regular, at least quarterly, information about its SCF portfolio, including beneficiaries, country exposures and concentrations, as well as reporting on any delinquent payments. PFIs will also be required to provide ADB with statistics to assess the development impact. ADB will review this information and monitor the program continuously.

C. Value Added by ADB Assistance

23. Value proposition and imperative. SCF is a unique and important vehicle through which to support DMC companies, and holds potential for significant development impact. SCF overcomes the two greatest impediments to financial support for DMC companies, including SMEs: weak financials and lack of collateral. Unlike standard risk assessments that focus on credit assessment and collateral, SCF risk assessment focuses on the strength, longevity, and “stickiness” (mutual dependence) of relationships in a supply chain. It is the relationship between an anchor and a supplier (usually a DMC SME) that is of primary concern, not financials and collateral. SCF represents a somewhat revolutionary paradigm through which ADB can support SMEs not normally considered “bankable”.

24. Another major value of SCF is that it provides the cash flow required for companies to grow and create more jobs. Suppliers may have enough working capital to produce goods for one or two shipments, but then need to scale down operations until they receive payment from an anchor, typically between 30 and 180 days after shipment. SCF provides cash to suppliers earlier, allowing them to fill multiple contracts at the same time and thereby enabling them to grow their business, which requires more staff. As such, SCF can become an important mechanism to underpin economic growth and job creation.

25. Capital resources are tight for many financial institutions, resulting in fewer financial resources to support DMC companies, especially SMEs. Less leverage (which is the “new normal”), more stringent regulatory requirements, the sovereign debt crisis in Europe, and pressure to hold more capital are all contributing to these conditions. When capital is tight, financial institutions focus on core products for core clients (not DMC companies and SMEs) in primary markets (which most DMCs are not). It is here that the program will provide additional

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7 Financial, including nonbank, institutions that are rated below A– may still be eligible if they broadly meet ADB’s other requirements as a potential PFI. If no international or local rating is available, ADB may assign one.
support to DMC companies. PFIs will use ADB resources to leverage their own to support more SCF activity in DMCs. Furthermore, ADB’s strong credit standing—AAA-rated guarantees lower the financial institutions’ risk-weighted assets against capital requirements—makes it a highly desirable partner for financial institutions with SCF skills and existing portfolios, and high demand for the program is anticipated. The TFP is increasingly called on to provide more support to fill widening gaps. Likewise, ADB could lend its capacity to support supply chain financing, a new area with significant potential to support economic growth and jobs in DMCs.

26. **Value added.** Capital alleviation and risk sharing from ADB under the program will boost the risk-bearing capacity of PFIs and make more funds available for SCF, to the benefit of more DMC companies, particularly SMEs. To ensure additionality, the potential PFIs that ADB has so far approached have indicated their willingness (as a condition for participating in the program) to agree to an SCF baseline with targeted annual increases in the number of DMC companies that will access SCF. ADB will thus ensure that (i) the program serves to benefit parties that would otherwise not be part of a PFI’s standard SCF portfolio, and (ii) the PFIs themselves commit to a formal policy of expanding their SCF portfolios.

D. Risks

27. The program entails the provision of guarantees and debt financing through PFIs to support payments throughout the supply chain, and thus will assume risk on anchors, DMC suppliers, and DMC distributors. In all cases under the program, a PFI’s risk will be at least equal to ADB’s.

28. SCF is a relatively low-risk way to support SMEs and other DMC companies. There are three primary reasons for this: (i) Unlike conventional risk assessments focused on financials and collateral, which provide a narrow and relatively limited or isolated assessment of risk, SCF takes a “holistic” approach, providing a broader perspective on the history and future of a DMC company’s (SME’s) ability to perform and meet obligations based on its continuing performance in supplying to anchors. (ii) Unlike financial statement analysis (which reports after the fact), SCF risk monitoring can be pre-emptive. Quarterly and annual discussions with suppliers and anchors can inform a PFI of warning signs, such as an anticipated slow-down in orders or various performance issues. Traditional risk assessments focused on statements would not recognize these issues until it might be too late to exit or restructure. (iii) In the case of distributor finance, the anchor and the PFI agree to a “stop supply” clause; this gives the PFI the right to stop an anchor from selling goods to a distributor in the event of nonpayment and provides a substantial disincentive to avoid meeting obligations, since distributors would go out of business without supply from the anchor.

29. The degree of risk under an SCF transaction depends on when support is provided in the supply chain. For example, if a financial institution provides post-shipment and post-acceptance finance, its risk on the supplier is negligible. If, however, it extends financing before shipment, it assumes both a supplier and an anchor risk.

30. The list of risks associated with each SCF product, and eligibility criteria that will broadly be required for ADB support, is in Supply Chain Finance Products and Their Risk Parameters (footnote 3).

31. PFIs will be responsible for recoveries under any defaults. All recoveries will be shared with ADB on a pro-rata basis.
32. Program Risks contains a detailed list of risks.\(^8\)

IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

A. Development Impact, Outcome, and Outputs

1. Impact

33. The ultimate development impact of the program will be broader access to SCF, in that the number of DMC companies with access to supply chain financing increases by at least 25% by 2020, compared with the 2012 industry baseline, which is expected to serve as a catalyst for trade-related economic growth in developing Asia.

2. Outcome

34. The outcome of the program will be a broadening of PFIs’ SCF portfolios with the provision of up to $500,000,000 (ADB’s participation: $200,000,000) in SCF on a rolling basis to DMC companies between 2013 and 2018.

3. Outputs

35. The key output will be the establishment of ADB’s SCF program for the purpose of improving DMC companies’ access to working capital. Related output indicators include enrollment of four PFIs by 2015, and a 15% increase in the number of DMC companies supported by PFI supply chain financing by 2017. The potential PFIs that ADB has thus far approached have indicated their willingness (as a condition of participating in the program) to agree to an SCF baseline with targeted annual increases in the number of DMC companies that will access supply chain financing. Baseline and target figures will be finalized when signing the agreements with PFIs.

B. Alignment with ADB Strategy and Operations


36. Under Strategy 2020, ADB will strengthen its support to the finance sector, both regionally and nationally, by helping develop financial infrastructure, institutions, and products and services, and by promoting inclusive growth.\(^9\) Through such initiatives, ADB will continue to assist in channeling the region’s savings into the most productive investments, and to build the capacity of financial institutions by introducing international best practices. The proposed investment supports institutional development and helps deepen the finance sector by expanding financial resources to support SMEs, economic growth, and job creation. It will also have a demonstration effect on non-partner financial institutions that are not yet providing SCF.

2. Consistency with Sector Strategy and Relevant ADB Operations

37. Supporting finance sector development is a key focus of development assistance for ADB, in line with the tenets detailed in its strategies for private sector development\(^10\) and poverty

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\(^8\) Program Risks (accessible from the list of linked documents in Appendix 2)


reduction.\textsuperscript{11} The latter states that ADB seeks to promote “sound and efficient banking systems and capital markets,” since these are seen as “indispensable for macroeconomic stability, mobilizing savings, and ensuring the availability of long-term financing, an essential requirement for pro-poor growth” (footnote 11). The Private Sector Development Strategy refers specifically to ADB’s role in strengthening the finance sector for the benefit of DMCs. Thus, this program is consistent with ADB’s overall finance sector strategy, as it will assist the development of a critical component of the sector’s much-needed support for SMEs in DMCs.

38. The program will be aligned with ADB’s Financial Sector Operational Plan, especially for financial inclusion,\textsuperscript{12} and enable ADB to provide support to SMEs not traditionally considered “bankable”. While the TFP fills a market gap, its reach is limited to supporting transactions that involve bank risk. The program, which assumes nonbank risk, will complement the TFP by rounding off ADB’s range of products in support of DMC companies’ domestic and cross-border transactions. The program also exemplifies ADB’s holistic approach to creating private sector economic growth and job creation. ADB will leverage off its success in structuring and implementing the TFP to apply lessons learned to the program.

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

39. The proposed investment is classified as FI (treated as category C) for environment, involuntary resettlement, and indigenous peoples under ADB’s Safeguard Policy Statement (2009). The program will involve primarily guarantees and debt financing of small loans for transactions in a supply chain each with insignificant environmental impact. The project team will review prospective PFIs’ environmental and social management systems. It is recognized that certain industry sectors such as garments, which may be supported under the program, may pose heightened environmental risks. ADB will ensure during due diligence that such risks are properly assessed and managed by potential PFIs. The project team will also review and assess potential gender benefits of the program, which could be quite positive and relevant, especially as the garment sector is likely to feature prominently in the program. Furthermore, the feasibility of prospective PFIs’ mechanisms to monitor compliance with national labor laws and internationally recognized labor standards will be an important consideration when selecting PFIs.

B. Anticorruption Policy

40. Each PFI would be advised of ADB’s policy of implementing best international practice in combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the financing documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

C. Investment Limitations

41. The proposed program is within the country, industry, group, and single investment exposure limits for nonsovereign investments.


\textsuperscript{12}“ADB will promote enhanced financial access for the traditionally underserved, particularly poor households and small and medium-sized enterprises (SMEs).” ADB. 2011. \textit{Financial Sector Operational Plan}. Manila.
D. Assurances

42. Consistent with the Agreement Establishing the Asian Development Bank (the Charter), the government’s no objection to the proposed assistance will be obtained from any government within whose territory financing under the program will be provided. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the Board of Directors.

VI. RECOMMENDATION

43. I am satisfied that the proposed Supply Chain Finance Program of up to $200,000,000 (or its equivalent in local currency acceptable to the Asian Development Bank (ADB)), would comply with the Articles of Agreement of Asian Development Bank and recommend that the Board approve the Program from ADB’s ordinary capital resources, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Haruhiko Kuroda
President

18 October 2012

## DESIGN AND MONITORING FRAMEWORK

<table>
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| **Impacts (2020)** | Number of companies in DMCs with access to supply chain financing increases by at least 25% by 2020, compared with 2012 baseline | Statistics from PFIs – reports requested by the program | Assumption 
Continued growth in demand for SCF |
| **Outcome * (2018)** | At least $500 million (ADB’s portion of risk: $200 million) provided as SCF to DMC companies between 2013 and 2018 | The program’s statistics | Assumptions 
PFI’s remain in a position to support DMC companies with SCF |
| **Outputs (2013–2017)** | Four PFIs are enrolled in the program by 2015 | Audited financial statements, annual monitoring reports of PFIs. SCF legal agreements | Assumption 
Continued growth in demand for supply chain financing from PFIs |
| **Activities with Milestones** | 1.1 ADB initiates SCF agreements with PFIs (Q2 2013) | | Inputs 
Up to $200 million in ADB SCF financing (revolving) |
| | 1.2 Risk sharing and (partial) funding of supply chain financing becomes operational (Q3 2013–2014). | | Cofinancing 
An amount at least equal to the aggregate ADB SCF financing |
| | 1.3 PFIs begin delivering SCF services between 2013-2014. | | |

ADB = Asian Development Bank, DMC = developing member country, IT = information technology, PFI = partner financial institution, SCF = supply chain finance.

* The program design and related design and monitoring framework may be revised based on lessons learned and opportunities recognized during the program’s implementation.

b Baseline and target figures will be finalized based on agreements signed with PFIs, and reflected in the legal agreements with PFIs as a schedule on development effectiveness monitoring.

LIST OF LINKED DOCUMENTS
http://www.adb.org/Documents/RRPs/?id=46920-01-4

1. Sector Overview
2. Ownership, Management, and Governance
3. Details of Implementation Arrangements
4. Contribution to the ADB Results Framework
5. Summary Poverty Reduction and Social Strategy
6. Safeguards and Social Dimensions Summary

Supplementary Documents

7. Supply Chain Finance Products and Their Risk Parameters
8. Diagram of Post-Shipment or Post-Acceptance Supply Chain Finance Program
9. Comparison Between Trade Finance Program and Supply Chain Finance Program
10. Program Risks
11. Relationship Between Risk Under Supply Chain Finance Products and Development Impact
12. International Finance Corporation and Supply Chain Finance