



Technical Assistance Report

Project Number: 37909-026
Transaction Technical Assistance Cluster (C-TRTA)
May 2018

Due Diligence and Capacity Development of Trade Finance Program Banks Subproject 1: Due Diligence and Capacity Development of Trade Finance Program Banks

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
TA	–	technical assistance
TFP	–	Trade Finance Program

NOTE

In this report, "\$" refers to United States dollars unless otherwise stated

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I. THE ONGOING PROGRAM

1. Since being launched in 2003, ADB's Trade Finance Program (TFP) has supported \$30.7 billion in trade and mobilized \$18.2 billion in cofinancing. The TFP conducts approximately 100 due diligence and annual reviews per year, enabling it to provide guarantees and loans through partner banks. This closes market gaps for trade finance and supports more trade, leading to economic growth and job creation. Information from due diligence and annual reviews will enable TFP to share knowledge that will help attract cofinancing and international investment in DMCs, thereby closing trade finance market gaps.

II. THE TECHNICAL ASSISTANCE SUBPROJECT

A. Overall Progress of the Technical Assistance Cluster

2. This is the first subproject under the Due Diligence and Capacity Development for Trade Finance Program Banks.

B. Subproject Scope

3. Subproject 1 will provide the TFP with funding to conduct due diligence on partner banks and financial institutions. Financial analysts will be engaged through a firm from 2018 to 2019 to work with the TFP to conduct due diligence and ongoing annual reviews of participating banks and partner financial institutions. Subproject 1 will also include capacity building through in-country seminars and trainings.

C. Subproject Outputs and Activities

4. **Output 1: Capacity to provide trade finance and guarantees by developing member country banks enhanced.** Assessments of new and existing banks and partner financial institutions will be conducted under the TA by consultants who will support TFP relationship managers (ADB international staff). Due diligence on banks will enable ADB to identify and characterize any gaps in the financial and technical capacity of individual banks that would inhibit the provision and/or increase of trade finance credit lines.¹ DMC banks are targeted based on a market survey conducted by the TFP. If there is market demand for TFP guarantees on a particular DMC bank, the bank will be targeted for due diligence and inclusion into the program.² The due diligence results will be included in credit applications to establish or maintain TFP credit lines for participating banks.

5. **Output 2: In-country seminars and trainings conducted.** The TFP provides post-due diligence feedback to DMC banks to identify weaknesses and improvement benchmarks. This capacity development will help strengthen DMC banks and improve their ability to attract credit lines to support trade from international financial institutions. This will ultimately benefit importers and exporters by increasing their opportunities to access trade finance, allowing them to expand their business operations, and thereby create jobs and reduce poverty.

¹ The TA will coordinate with the TFP to target banks where there is market demand for capacity development.

² Notwithstanding current market demand, the TFP will likewise support further expansion to Group A countries including banks in Myanmar and the Pacific region (e.g., Samoa, Vanuatu, and possibly the Marshall Islands).

6. Information regarding the adequacy of the financial and technical capacity of individual banks will be confidentially conveyed to those banks. More general information about trade finance operations will be disseminated through in-country seminars to which DMC banks, exporters, government officials, and international banks may be invited. The seminars are expected to cover (i) key concepts and processes in trade finance, (ii) essential elements in developing and marketing trade finance products and services, (iii) payment and risk categories, (iv) risk analysis of trade finance products, (v) fundamentals of documentary credits, (vi) environment and safeguards guidelines as applied to TFP transactions, and (vii) de-risking and anti-money laundering compliance methods. The TA will also be used to fund regional seminars and other TFP training events, as well as an annual networking event, which will bring together international and local DMC banks and seek to increase private sector engagement with DMCs.

7. Activities will include the following:

- (i) work with individual banks to acquire financial data;
- (ii) analyze the financial information through financial, ratio, gap, and other analyses;
- (iii) conduct onsite due diligence on banks;
- (iv) assess the trade finance operations capacity of selected banks and make recommendations for improvement;
- (v) draft credit applications, risk ratings, and financial due diligence reports;
- (vi) conduct integrity due diligence and reviews, including monitoring and following up on recommendations for improvement;
- (vii) conduct due diligence and financial assessments on TFP banks with a view to expanding and leveraging the TFP to include additional ADB financial products;
- (viii) conduct a banking sector analysis for each DMC;
- (ix) conduct signing ceremonies with new partner banks;
- (x) deliver trade finance training;
- (xi) support initiatives related to knowledge-sharing important to closing trade finance gaps; and
- (xii) conduct knowledge-sharing, and partnership-development activities (including training seminars for DMC banks and regional training and/or networking events).

D. Subproject Cost and Financing

8. The TA subproject is estimated to cost \$3,200,000 which will be funded by TASF-6. The funds will cover remuneration, travel, and per diem for international consultants, conference related expenditures, and miscellaneous expenses.

E. Subproject Implementation Arrangements

9. ADB will administer the subproject. PSOD will select, supervise and evaluate consultants as well as resource persons that will be engaged for TFP seminars and trainings.

Table 1: Subproject Implementation Arrangements

Aspects	Arrangements
Indicative implementation period	April 2018–March 2019
Executing agency	Asian Development Bank
Implementing agencies	Asian Development Bank

Aspects	Arrangements		
Consultants	To be selected and engaged by ADB		
	Due diligence and financial analysis experts; resource persons	Firm; Resource Person Selection	ADB, Subproject 1
Advance contracting	Selection 141529: TA 37909-026 REG: Due Diligence and Capacity Development of Trade Finance Program Banks (Subproject 1)		
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		

ADB = Asian Development Bank, TA = technical assistance

Source: Asian Development Bank.

10. **Consulting services.** The consultants will be engaged in accordance with the ADB Procurement Policy (2017, as amended from time to time) and the associated project administration and/or staff instructions.