



Technical Assistance Subproject Report

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Transaction Technical Assistance Cluster (C-TRTA)
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Due Diligence and Capacity Development of Trade Finance Program Banks (Subproject 3)

This is the version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Access to Information Policy.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
PPFD	–	Procurement, Portfolio and Financial Management Department
TA	–	technical assistance
TFP	–	Trade Finance Program

NOTE

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

Vice-President	Diwakar Gupta, Private Sector Operations and Public-Private Partnerships
Director General	Michael Barrow, Private Sector Operations Department (PSOD)
Director	Christine Engstrom, Private Sector Financial Institutions Division, PSOD
Team leader	Steven Beck, Advisor (Trade and Supply Chain Finance), PSOD
Team members	Elnora Mangampat, Senior Investment Officer, PSOD Can Sutken, Investment Specialist, PSOD Donna Marie Tupas, Senior Investment Officer, PSOD

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I. THE ONGOING PROGRAM

1. Since its launch in 2003, ADB's Trade Finance Program (TFP) has supported \$42.30 billion in trade and mobilized \$25.42 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 enables TFP to share knowledge that helps attract cofinancing and international investment in developing member countries (DMCs), thereby closing trade finance market gaps.

2. The onset of the COVID-19 pandemic in early 2020 continues to pose an immense challenge for global trade and economic growth of many DMCs. Moreover, multiple bottlenecks in the supply chain of critical goods such as medicines, ventilators and personal protective equipment, among others, are causing production and delivery delays. These bottlenecks impede critical measures to prevent the further spread of the virus and to provide necessary care to infected individuals. The COVID-19 pandemic underscores the need to support trade not only to move medical supplies but also to bolster economies. Trade has never been more critical for economic growth, jobs, and to ensure medical equipment, food and other vital goods get to where they are needed. In April 2020, ADB boosted its capacity to support trade and supply chains with a major increase in its financial resource and flexibility for its \$2.15 billion TFP.¹ The TFP is an excellent crisis response vehicle, with an extensive global network of 200 partner financial institutions through which support can be channeled quickly and efficiently, including to small and medium-sized enterprises (SMEs), which are the entities most likely impacted by the pandemic.

II. THE TECHNICAL ASSISTANCE SUBPROJECT

A. Overall Progress of the Technical Assistance Cluster

3. The technical assistance cluster was approved by the Board on 11 April 2018 and complements ADB's non-sovereign operations in trade and trade facilitation projects.² It is linked to ADB's Operational Plan for Private Sector Operations, 2020–2024, as well numerous strategies and business opportunities presented in country strategy papers, regional cooperation strategies and programs, and country operations business plans for ADB's DMCs.³ The technical assistance cluster builds on ongoing work under TA projects started in 2009, 2013, 2014, and 2015.⁴

4. Subprojects 1 and 2 funded TFP's due diligence activities on partner banks from May 2018 to present. During this period, 21 new bank assessments, 10 preliminary analyses of potential TFP issuing bank candidates, 174 bank monitoring assessments, 26 banking system analyses, 6 annual reviews of existing risk distribution partners and 4 trainings/workshops have been delivered. Subproject 1 has been extended until 5 July 2020 and subproject 2 until 31 October

¹ ADB. 2020. *ADB's Comprehensive Response to the COVID-19 Pandemic*. Manila.

² The TA first appeared in the business opportunities section of ADB's website on 15 February 2018.

³ ADB. 2011. *Financial Sector Operational Plan*. Manila; ADB. 2016. *Work Program and Budget Framework, 2017–2019*. Manila.

⁴ ADB. 2009. *Technical Assistance for Trade Finance Capacity Development*. Manila (cofinanced by the Japan Special Fund); ADB. 2013. *Technical Assistance for Trade Finance Capacity Development, Phase 2*. Manila; ADB. 2014. *Technical Assistance for Capacity Development for Banks in Developing Member Countries under the Trade Finance Program*. Manila; ADB. 2015. *Technical Assistance for Due Diligence and Capacity Development of Potential and Existing Trade Finance Program Banks*. Manila; and ADB. 2015. *Technical Assistance for Capacity Development for Expansion of the Trade Finance Program into the Pacific and Enhanced Safeguards and Integrity Measures for Trade Finance Program Banks*. Manila.

2020 to align the duration of the subprojects with the engagement period of consultants and to allow TFP to use the remaining budget for upcoming trainings and events.

B. Subproject Scope

5. Similar to the first and second subprojects, subproject 3 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 2020 to 2021 to work with the TFP to conduct due diligence and ongoing annual reviews of participating banks and partner financial institutions. Subproject 3 will also include capacity building through seminars, including webinars and other online trainings.

C. Subproject Outputs and Activities

6. **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.⁵ 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.⁶ The due diligence results will be included in credit applications to establish or maintain TFP credit lines for participating banks.

7. **Output 2: Seminars, webinars and other online trainings conducted.** Approximately 4 seminars, webinars and/or online trainings will be conducted under Subproject 3. 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.

8. 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 seminars, webinars and other online trainings to which DMC banks, exporters, government officials, and international banks may be invited. These 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) de-risking and anti-money laundering compliance methods, and (vii) digitization of trade finance. The TA will also be used to fund regional seminars and other TFP training events, as well as an annual networking event, online or otherwise, which will bring together international and local DMC banks and seek to increase private sector engagement with DMCs.

9. **Output 3: Integrity due diligence and reviews completed on Trade Finance Program developing member country banks and partner financial institutions.** Following the global financial crisis, compliance and regulatory requirements have increased significantly for banks,

⁵ The TA will coordinate with the TFP to target banks where there is market demand for capacity development.

⁶ 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 and Vanuatu).

including in the field of trade finance. The TA will continue consultant support to strengthen integrity and anti-money laundering measures and monitoring by conducting integrity due diligence and reviews on all TFP DMC banks and partner financial institutions and, once an automated system is in place, relevant sanctions screening for all TFP transactions.

10. 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 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 with new partner banks;
- (x) deliver trade finance seminars, webinars, and online training;
- (xi) support initiatives related to knowledge-sharing important to closing trade finance gaps;
- (xii) conduct knowledge-sharing, and partnership-development activities (including training seminars for DMC banks and regional training and/or networking events, which may be done through online facilities); and
- (xiii) conduct relevant sanctions screening for all TFP transactions.

D. Subproject Cost and Financing

11. The TA is estimated to cost \$3,500,000, of which (i) \$2,937,837 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-donor contribution), and (ii) \$562,163 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-income transfer). The key expenditure items are listed in Appendix 1.

E. Subproject Implementation Arrangements

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

Table 1: Subproject Implementation Arrangements

Aspects	Arrangements	
Indicative implementation period	July 2020–June 2021	
Executing agency	Asian Development Bank	
Implementing agencies	Asian Development Bank	
Consultants	To be selected and engaged by ADB	
	Contract extension of winning firm engaged via Quality and	Firm: due diligence and financial analysis experts

Aspects	Arrangements	
	cost-based selection under Subprojects 1 and 2	
	Individual selection	Individuals: trade finance capacity development expert (international); trade finance expert (international)
	Individual selection	Individuals: administrative assistant and events coordinator (national); integrity, anti-money laundering, know-your-client, and counter-financing of terrorism consultant (national); middle office consultant (national); portfolio analyst (national); senior back office assistant (national); Trade Finance Program associate (national)
	Resource person selection	resource persons for trainings and workshops
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.

13. **Consulting services.** Subproject 3 will require 222 person-months of consulting inputs. 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.

SUBPROJECT COST ESTIMATES AND FINANCING PLAN

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=37909-032-TARreport>

1. Terms of Reference for Consultants
2. Approved Major Change in Scope and Amount
3. ADB's Comprehensive Response to the COVID-19 Pandemic