



Report and Recommendation of the President to the Board of Directors

Project Number: 37909-034
June 2021

Proposed Guarantees, Loans, and Risk Participation Products for Additional Financing Trade Finance Program (Regional)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure in accordance with paragraph 97 (v), (viii), of ADB's public Communications Policy 2011.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
AML	–	anti-money laundering
COVID-19	–	coronavirus disease
DMC	–	developing member country
ESMS	–	Environmental and Social Management Systems
ICC	–	International Chamber of Commerce
MDB	–	multilateral development bank
OP	–	Operational Priority
RRP	–	report and recommendation of the President
SDG	–	Sustainable Development Goal
SMEs	–	small and medium-sized enterprises
TFP	–	Trade Finance Program
SPS	–	Safeguard Policy Statement

NOTE

In this report, “\$” refers to United States dollars.

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PROGRAM AT A GLANCE

1. Basic Data		Project Number: 37909-034	
Project Name	Proposed Guarantees, Loans, and Risk Participation Products for Additional Financing Trade Finance Program	Department/Division	PSOD/PSFI
Country	REG (All DMCs)		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=37909-034-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Trade finance		800.00
		Total	800.00
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG reductions (tons per annum)	0.000
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
✓ Strengthening governance and institutional capacity			
✓ Fostering regional cooperation and integration			
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.4		Effective gender mainstreaming (EGM)	✓
SDG 5.a			
SDG 8.3			
SDG 9.3			
SDG 17.11			
4. Nonsovereign Operation Risk Rating:		Not Applicable	
5. Safeguard Categorization		Environment: FI Involuntary Resettlement: FI Indigenous Peoples: FI-C	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		800.00	
Nonsovereign Credit Guarantee: Ordinary capital resources ^a		800.00	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Others		0.00	
Total		800.00	
Currency of Financing: US Dollar			

^a Potential Modalities and Sources Include:

- (i) LIBOR Based loan: Ordinary Capital Resources
- (ii) Credit Guarantee: Ordinary Capital Resources
- (iii) Partial Credit Guarantee without Government Guarantee: Ordinary Capital Resources
- (iv) Local Currency Loans: Ordinary Capital Resources

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation of the President (RRP) on proposed guarantees, loans, and (unfunded and funded) risk participation products of up to \$800,000,000 for the additional financing of the Trade Finance Program (TFP), and support for:
 - (i) the incorporation on a permanent basis of the following changes in scope to the TFP, originally approved on a temporary basis as part of ADB's Comprehensive Response to the COVID-19 Pandemic,¹ to enable the TFP to:
 - (a) support domestic trade when an emergency is declared by a national government or an officially recognized international body;
 - (b) support transactions involving goods in projects that are classified as category B for the environment under Asian Development Bank's (ADB's) Safeguard Policy Statement (SPS) (2009) when the transaction is not connected to an ADB financed project;² and
 - (c) use local currency for loans and guarantees issued under the program;³ and
 - (ii) providing the TFP with the ability to support transactions involving goods in projects that are:
 - (a) classified category B for involuntary resettlement impacts under the SPS when the transaction is not connected to an ADB financed project; and
 - (b) classified category A for the environment or involuntary resettlement, or classified Category A or B for indigenous peoples impacts under the SPS, if the transactions are to support goods and equipment for ADB-financed projects for which ADB compliance is already confirmed.
2. This RRP also fulfils the reporting requirement to the Board on the program's performance at intervals of no more than 3 years.

II. THE PROGRAM

A. Program Overview

3. Trade finance is explicitly recognized in the Addis Ababa Action Agenda on Financing for Development as important to achieving the United Nations Sustainable Development Goals (SDGs).⁴ However, an ADB survey published in September 2019 estimated a global trade finance gap of \$1.5 trillion, with small and medium-sized enterprises (SMEs) and women-led businesses being the most underserved.⁵ This gap has widened during the coronavirus disease (COVID-19) pandemic. The International Chamber of Commerce (ICC) anticipates that an additional \$1.9 trillion–\$5 trillion is required to support a rapid global recovery.⁶
4. ADB's TFP reduces market gaps for trade finance by (i) providing guarantees and loans to banks, and undertaking funded and unfunded risk participation, in support of trade; and (ii) delivering knowledge products, services and solutions. The program was established in 2003

¹ ADB. 2020. [ADB's Comprehensive Response to the COVID-19 Pandemic](#). Manila.

² ADB. 2009. [Safeguard Policy Statement](#). June. Manila.

³ In the context of the TFP, a "guarantee" is a reference to a standby letter of credit issued by ADB under the TFP Credit Guarantee product. A standby letter of credit is not a guarantee as a matter of law but is referred to as such by the TFP for ease of understanding and marketing purposes.

⁴ United Nations. 2015. [Addis Ababa Action Agenda of the Third International Conference on Financing for Development](#). New York: United Nations.

⁵ ADB. 2019. [2019 Trade Finance Gaps, Growth, and Jobs Survey](#). ADB Briefs No. 113. September. Manila.

⁶ ICC. 2020. [Trade Financing and COVID-19](#). Paris.

with a \$150 million limit. In 2009, following the global financial crisis, the ADB Board of Directors endorsed an expansion of the program limit to \$1 billion.⁷ In 2012, the Board endorsed a major change in the program that removed the sunset clause and introduced a maximum 3-year reporting requirement.⁸ In 2018, the Board endorsed an expansion of the program limit to \$1.35 billion.⁹ In April 2020, under ADB's Comprehensive Response to the COVID-19 Pandemic, the ADB Board of Directors approved scope changes and a program limit increase of \$800 million, which raised the limit to \$2.15 billion (footnote 1). In order to meet increased demand, this paper proposes to mainstream the policy variations and \$800 million limit increase approved under ADB's COVID-19 Response, which are currently set to expire on 30 July 2021.

B. Business Overview from 2018–2020

5. **Design and monitoring framework results.** The program exceeds the core indicator targets set forth in the design and monitoring framework (covering 2018–2020) appended to the program's 2018 RRP (footnote 8), and is on track to achieve development goals.

Design and Monitoring Framework Targets versus Results, 2018–2020

Metric	Target	Result
Value of trade supported (million)	\$12,820	\$17,435
Cofinancing (million)	\$8,013	\$10,205
Number of transactions	8,814	16,486
Number of transactions involving SMEs	6,925	9,658
Number of intraregional transactions	7,043	12,744
Number of DMC-to-DMC transactions	1,798	4,620

DMC = developing member country, SMEs = small and medium-sized enterprises.

Source: Asian Development Bank (Trade Finance Program).

6. The TFP had a 50% increase in the number of transactions (to 7,178) and a 7% increase in transaction value (to \$5.8 billion) in 2020 compared with 2019. The current program limit of \$2.15 billion was never breached. This was possible because of the short-term nature of trade finance. The average life, or tenor, of the underlying transactions was 152 days in 2020, which meant each dollar of the limit could be used twice in a year. The TFP also employs a co-financing strategy, transferring portions of risk to mostly private insurers, beyond ADB's internal limit threshold.¹⁰ The TFP executes transactions daily, mostly within 24 hours. It is an intense operating environment that has remained uninterrupted despite the pandemic. Achieving a 50% increase in transaction volume was difficult but well managed under the work-from-home COVID-19-related restrictions.

7. **The Trade Finance Program's COVID-19 response.** The TFP's increased support during the pandemic, through both transactions and knowledge products, has helped commercial lenders continue to finance trade in developing member countries (DMCs) as the global economy experienced major shocks. The TFP has been highly visible in the market, with ADB staff providing webinars on COVID-19-related risk to trade finance, and how it can be mitigated. As part of these efforts, the TFP, in coordination with other ADB departments, created a knowledge product—a tool that maps the entire supply chain for 34 COVID-19 emergency response goods such as masks, ventilators, and vaccines, including companies involved in each

⁷ ADB. 2009. *Major Change in Scope and Amount: Trade Finance Program*. Manila.

⁸ ADB. 2012. *Major Change in Program: Trade Finance Program*. Manila.

⁹ ADB. 2018. *Proposed Guarantees, Loans, and Risk Participation Products for Additional Financing Trade Finance Program*. Manila.

¹⁰ The program exposure limit is net of amounts of risk distributed, off-loaded, and/or syndicated to non-DMC counterparty risks.

part of manufacturing and distribution. This initiative facilitates the process of identifying and addressing bottlenecks impeding the ramp-up of supplies for critical goods.¹¹ The program's efforts were recognized through industry awards in 2020, including Global Finance Magazine's "Outstanding Crisis Leadership" and 'Best Trade Finance MDB Award' from Trade Finance Global.

8. **Utilization.** During 2018–2020, the program supported 16,486 transactions valued at \$17.4 billion. The TFP's gross peak utilization on a single day in 2020 was \$2.2 billion compared with \$1.6 billion in 2019. To manage its pipeline of transactions and comply with the approved program limit of \$2.15 billion, ADB distributed \$1.68 billion in exposure to eligible counterparties.¹²

9. **Sector composition.** During 2018–2020, the program supported a broad array of transactions, including small transactions, such as a \$24,000 export of taro and coconuts from Samoa to New Zealand, and large transactions, such as a \$15 million import of textile machinery to Pakistan from Japan.

10. In 2020, in terms of the number of transactions, the portfolio included non-energy commodities (43%), food and agricultural (20%), capital goods (10%), and medical and pharmaceutical goods (4%). The number of medical and pharmaceutical transactions increased by more than 150% in 2020 and by 41% in United States dollar terms. While the number of oil (2%) and gas (1%) transactions in the TFP's portfolio is low, the dollar value as a percentage of the overall portfolio was 23% for oil and 15% for gas.

11. Oil and gas imports are a lifeline for many DMC economies. Over 85% of oil imports supported by the program are to Pakistan and Sri Lanka, with 15% to Bangladesh and Viet Nam. These DMCs rely heavily on oil and gas imports for transport and industrial sectors. The Pakistan country partnership strategy, 2021-2025, calls for stable import of oil under strategic pillar 1 of improving economic management: lifting growth, building resilience, increasing competitiveness.¹³ Large oil shipments are a challenge for the private sector in these DMCs due to the size of such transactions (typically \$25 million to \$50 million) against insufficient country and counterparty limits, due to weak country credit ratings and/or weak counterparty ratings on DMC banks in these markets.¹⁴

12. ADB is currently discussing full alignment with the Paris Agreement by 2023.¹⁵ The multilateral development bank (MDB) climate coordination group is developing the methodology to assess compliance with the Paris Agreement, which will consider trade finance support for oil using a shared MDB approach. While the TFP support for oil imports at this point in time is important, the ultimate goal is to stop supporting oil. Therefore, the TFP will support oil shipments only and will not support any greenfield oil projects, new exploration sites, and refineries. The TFP will implement a "Green Initiative" to encourage sustainable transactions based on longer tenors of up to 3 years, which will be made available to support capital equipment for sustainable projects. The TFP will review its support for oil shipments as part of its next report to the Board in

¹¹ ADB. 2020. [Supply Chain Maps for Pandemic Fighting Products](#).

¹² Risk distribution partners include: Liberty Mutual Insurance, FMO (Nederlandse Financierings Maatschappij Voor Ontwikkelingslanden N.V.) Swiss Reinsurance, Australia's Export Finance Insurance Company, OPEC Fund for International Development, and Munich Reinsurance.

¹³ ADB. 2021. Country Partnership Strategy: Pakistan, 2021-2015: Lifting Growth, Building Resilience, Increasing Competitiveness. Manila.

¹⁴ Nonsovereign Operations ratings are internal ratings assigned to DMCs and is an indicator of credit risk associated with the borrower with NSO1 being lowest expectation of credit risk while NSO13 implying very high credit risk

¹⁵ United Nations Climate Change. [Paris Agreement](#).

2024. In the interim, the program will engage with the MDB climate coordination group's deliberations on support for oil shipments against Paris Agreement Alignment. Progress with respect to green technology, affordability, and DMC's Nationally Determined Contributions will be taken into account. Collectively, these steps would ensure that the TFP's support for oil imports remains aligned with SDGs and the Paris Agreement.

13. **Geographic distribution.** Of the program's 22 countries of operation, the 4 most active were Bangladesh, Pakistan, Sri Lanka, and Viet Nam, both by number of transactions (93% of portfolio) and dollar value (95% of portfolio). Because of the size of their economies and market demand, Bangladesh, Pakistan, Sri Lanka, and Viet Nam have consistently been among the TFP's top four most active markets. Uzbekistan's share of the portfolio has been increasing as the economy liberalizes and demand for TFP guarantees increases. During 2018–2020, more than 61% of program transactions were conducted in Asian Development Fund countries.¹⁶ The program supported 12,744 intraregional transactions and 4,620 transactions between DMCs over the 3-year reporting period.

14. **Small and medium-sized enterprises.** The program continues to play a vital role in providing access to trade finance for SMEs. In 2018–2020, an estimated 81% of program transactions supported SMEs, with 7,544 SME transactions supported.¹⁷

C. Knowledge Products

15. **Trade Finance Gaps, Growth and Jobs survey. Knowledge Products form an integral part of the Trade Finance Program and drive future business volumes.** This knowledge product (footnote 4), developed in partnership with Economic Research and Regional Cooperation Department (ERCD), continues to receive global attention as the world's first statistics that quantify market gaps for trade finance and their impact on economic growth and job creation. The most recent study was launched in September 2019. The TFP and ERCD will release an updated study on market gaps in September 2021.

16. **Anti-money laundering and combating the financing of terrorism initiatives.** The Trade Finance Gaps Growth and Jobs survey (footnote 4) attributed unintended consequences of anti-money laundering and combating the financing of terrorism (AML/CFT) as important contributors to market gaps. To address such gaps, the TFP engaged multiple stakeholders to develop knowledge products, services, and solutions. In addition to closing market gaps, the program's AML/CFT initiatives seek to increase transparency and improve methods on a global industry level to identify and prevent trade-based crime in the global financial system. In 2020, the Financial Action Task Force (FATF) report on Trade-Based Money Laundering cited TFP's AML initiatives as a best practice. There is an ongoing collaboration with the United Nations Office on Drugs and Crime's goAML team to improve suspicious transaction reporting in trade.

17. **Capacity building initiatives.** The program implemented a successful online training program focused on trade finance, AML, and sustainability. The program is also promoting training to fight modern slavery and illegal trade in wildlife. Over 700 individuals from 20 DMCs took part in these online courses.

¹⁶ Calculated based on the classification, under ADB's [Classification and Graduation Policy](#), of Sri Lanka and Viet Nam as Group B (OCR Blend) in 2018 and as Group C (Regular OCR only) in 2019 and 2020. If the 2019 classification is applied to TFP 2018–2020 results, the figure is 46%.

¹⁷ In 2018 and 2019, transactions valued at less than \$1 million were considered to have supported SMEs. In 2020, the calculation of the number of SME transactions supported was revised using a new methodology aligned with the International Finance Corporations' criteria of SMEs, i.e., turnover ≤ \$15 million and/or 300 or fewer employees.

18. **Sustainability initiative.** The TFP is leading industry efforts through the ICC to create commonly approved definitions for sustainable trade finance and to explore links between sustainability and regulatory capital treatment for banks to make sustainable trade finance transactions systemically less expensive.

19. **Gender initiative.** The program's gender initiative assessed the human resource policies of 19 partner banks from 8 countries to identify enhancements to attract, retain, and promote women in banking; 12 banks implemented 25 recommendations.¹⁸ The initiative is being expanded to include more banks in more countries and to enhance support for implementing more complex recommendations, such as grievance procedures.¹⁹

20. **Digitalization of trade.** Digitalization is critical to making global trade and supply chains less susceptible to shocks, as experienced during the pandemic. The TFP, in partnership with the Government of Singapore and the ICC, established the Digital Standards Initiative in the second half of 2020; the DSI is coordinating disparate efforts to develop digital standards and protocols to drive inter-operability between component parts of the trade ecosystem, which will underpin progress in fintech to reduce financing gaps among SMEs and DMCs. TFP will use One ADB approaches to close legislative gaps impeding digitalization of trade.

21. **Audit.** The Office of Auditor General audited the program in 2020. The audit recommended improvement in controls and efficiency within the TFP's management system and stated that the Trade Finance Unit has adequate manual controls in place to compensate for the system's shortcomings.²⁰ Operational risk is heightened due to weaknesses in the program's information technology system, which is incapable of supporting a business of this size and scale. ADB is in the process of replacing the TFP management system with a more robust system; this is targeted for implementation by the end of 2023.

22. **Revenue and profitability.** The program has never had a default or loss.

D. Lessons Learned

23. **Increased program limit.** Following approval of the special policy variation under the COVID-19 Response Paper (footnote 1), the entire \$800 million in additional TFP limits is being used and has enhanced the program's ability to address access to trade finance. It is expected that there will be heightened demand for TFP's products for the medium-term. First quarter 2021 results indicate a 37% increase in transaction value and a 1% decline in transaction numbers over 2020 for the same period.

24. **Crisis response.** As an excellent crisis response vehicle, the TFP could be used as an effective tool to support domestic trade when an emergency is declared by a national government or an officially recognized international body.

25. **Category B transactions.** There is demand for capital and other equipment transactions in projects that are classified as Category B under ADB's SPS (footnote 2). To implement this,

¹⁸ ADB. 2018. [ADB Gender Initiative with Trade Finance Partner Banks Phase II: Implementation](#). Consultant's report. Manila (TA 8925).

¹⁹ ADB. 2020. *Review of Gender Strategies within TFP Partner DMC Banks of Asian Development Bank*. Consultant's report. Manila (TA 9669).

²⁰ ADB. 2020. *Audit of Trade Finance Program and Supply Chain Finance Program*. Audit Report Number: 20-007. Manila.

partner banks will require adequate environmental and social management systems (ESMSs), and TFP is now working with five partner banks to implement these systems.

26. **Mainstreaming of support for local currency transactions.** Over 90% of international trade finance is in hard currencies (mostly United States dollars), but there are circumstances, particularly in trade between DMCs, when clients could benefit from support in local currencies.

III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

27. **Additional financing.** Because the additional \$800 million program limit approved on a temporary basis in the COVID-19 Response is being fully used (para. 23), with continued high market demand for the TFP as demonstrated in first quarter 2021 results, it is proposed to make permanent the \$800 million as part of the existing \$2.15 billion program limit. Except as set out in paras. 28–29, it is proposed that the program, as previously approved, remain unchanged.

28. **Scope Changes.** It is proposed to make permanent the following, which was approved on a temporary basis in the COVID-19 Response:

- (i) the ability for the TFP to support domestic trade when an emergency is declared by a national government or an officially recognized international body;²¹
- (ii) the ability for the TFP to support transactions involving goods in projects that are classified category B for the environment in accordance with ADB's SPS (footnote 2) when the transaction is not connected to an ADB financed project;²² and
- (iii) the ability for the TFP to use local currency for loans and guarantees issued under the program

29. **Expanded eligible safeguards categorization.** It is also proposed for TFP to support transactions involving goods in projects that are classified (i) category B for involuntary resettlement when the transaction is not connected to an ADB financed project; (ii) category A for the environment or involuntary resettlement /or category A or B for indigenous peoples impacts if the transactions are to support goods and equipment for ADB-financed projects, for which ADB compliance is confirmed.

B. Implementation Arrangements

30. No changes are proposed to existing implementation arrangements.²³

31. **Reporting arrangements.** In accordance with the 2012 major change in program (footnote 8), ADB reports on the TFP to the Board at intervals of no more than 3 years and will report to the Board next in 2024.

²¹ TFP support for domestic trade is further discussed in Details of Implementation Arrangements (accessible from linked documents 2 in Appendix 2). As set out in the Details of Implementation Arrangements, the TFP's Revolving Credit Facility product will be the implementation vehicle.

²² Safeguards categorization of transactions eligible for TFP support is further discussed in Details of Implementation Arrangements, Summary Poverty Reduction and Social Strategy, and Environmental and Social Management System Arrangements (accessible from linked documents 2, 4, and 5 in Appendix 2).

²³ TFP's integrity due diligence is further addressed in Details of Implementation Arrangements (accessible from linked document 2 in Appendix 2).

C. Value Added by ADB Assistance

32. **Increased access to trade finance.** Approving the additional \$800 million program limit on a permanent basis will increase the program's ability to meet market demand and catalyze cofinancing. The TFP is ADB's largest mobilizer of short-term co-financing. As such, ADB can help strengthen banking systems and reduce trade finance gaps, which will contribute to economic growth that drives job creation and, ultimately, a reduction in poverty.

33. **Support for domestic trade during emergencies.** The TFP's existing network of hundreds of partner banks worldwide makes the TFP a platform through which ADB can channel immediate support through local banking systems and mobilize co-financing with global banks and eligible counterparties. Mainstreaming the program's ability to support domestic transactions—in addition to its long-standing ability to support cross-border trade—could prove an effective additional crisis response tool for DMCs in future emergencies.

34. **Access to local currency loans and guarantees.** The ability to support local currency transactions will increase the TFP's capacity to support a reduction in DMC reliance on hard currencies, and adds to the options ADB has to support DMCs facing local currency market shocks. In this way, the TFP could further play an important role in supporting DMCs in line with its capability as a crisis response tool.

35. **Strengthening safeguards and increasing access to finance for capital equipment.** Expanding safeguards eligibility to include transactions classified category B for environment or involuntary resettlement impacts will provide the TFP with the capability to support DMCs in an important area, e.g., with respect to core plant equipment, and materials needed for new and/or upgraded infrastructure projects. The ability to support these transactions offers the opportunity for partner banks to strengthen their ESMSs and practices through technical assistance provided by the TFP. The TFP support for transactions involving goods for ADB-financed projects that are classified category A for the environment or involuntary resettlement impacts, or category A or B for indigenous peoples impacts, could fill trade finance gaps for such projects, while taking advantage of assessments made in projects already supported by ADB through project finance, for which the supply of materials and equipment can be supported under the TFP while mitigating and managing potential reputational and compliance risks.²⁴

36. **Gender equality enhanced.** The TFP will expand its gender initiative, which has assessed the human resource policies of banks to identify enhancements to attract, retain and promote more women in banking.²⁵

D. Risks

37. **Low-risk nature of trade finance.** The program has never had a default or loss. In 2010, the program mobilized the private sector to create the first default and loss statistics for trade finance on a global industry basis. These data are published annually by the ICC and indicate

²⁴ Safeguards categorization of transactions eligible for TFP support is discussed in Summary Poverty Reduction and Social Strategy and Environmental and Social Management System Arrangements (accessible from linked documents 4 and 5 in Appendix 2).

²⁵ The gender initiative is further addressed in the Gender Action Plan (accessible from linked document 6 in Appendix 2).

default rates for trade finance of 0.02%–0.05%.²⁶ Trade finance carries relatively low risk because it tends to be short-term, self-liquidating, and has a high payment priority.

38. **Category B transactions.** TFP aims to do more transactions with tenors of 1 to 3 years in support of Category B and green initiative transactions, which will entail higher credit and environmental risk; 1 to 3-year transactions are in line with Office of Risk Management's approved limit parameters. Notwithstanding, the average tenor of TFP's portfolio will remain less than 180 days.

39. **Country concentration risk.** The program complies with ADB's country exposure limits for nonsovereign operations, but the predominance of program transactions in certain countries could lead to exposure concentration.

40. **Risk of passive breach in risk transfers.** The program has actively distributed risk to eligible counterparties. A rapid deterioration in the credit ratings of a counterparty could, in extreme situations, lead to a passive breach of obligor or program limits. However, this risk is managed by diversification to eligible counterparties. Further, should a counterparty's rating deteriorate below agreed thresholds, ADB has the right to terminate the risk distribution agreement with the counterparty.

IV. DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT

A. Development Impact, Outcome, and Outputs

41. **Impact.** Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all. This will be achieved by increasing access of DMC banks to trade finance through the program.

42. **Outcome.** Support for trade finance in Asia and the Pacific expanded. Through a combination of guarantees, loans, and unfunded and funded risk participations, as well as risk transfers or risk distributions, DMC banks and their importer and exporter clients will have access to more trade finance, thereby closing market gaps. International banks can leverage ADB's support, in turn, to broaden their own support for trade in developing Asia. Success in achieving the outcome will be measured in terms of an increase in the number of SMEs, intraregional and DMC-to-DMC trade transactions supported, and co-financing mobilized.

43. **Outputs.** Outputs include capacity to provide trade finance by the program's partner banks enhanced in a gender-inclusive manner, and the expanded provision of trade finance sustained; these will be measured by the number of training sessions and seminars conducted during 2021–2023, by the increase in the percentage of women participating in the TFP's training, and by the increase in banks participating in the program. In addition, the gender inclusiveness of participating banks' human resource policies will be enhanced, as measured by the number of banks adopting measures to increase the hiring, retention, and advancement of women in the workplace. In addition, the access to international trade finance of women-owned businesses will be enhanced, and the environmental and social safeguards awareness of the TFP and its partner banks will be increased.²⁷

²⁶ International Chamber of Commerce. 2020. *ICC Trade Register report 2019 (iccwbo.org)* Paris. ADB's TFP created this knowledge product and housed it at ICC.

²⁷ The revised design and monitoring framework is in Appendix 1.

B. Alignment with ADB Strategy and Operations

44. **Consistency with ADB strategy and country strategy.** The program addresses remaining poverty and reducing inequalities (OP1 and SDG 1) by providing greater access to trade finance among SMEs (SDG 8). The program delivers greater gender equality (OP 2 and SDG 5) by supporting more women in banking. It will contribute to tackling climate change and boosting environmental sustainability by promoting sustainable practices among banks. The TFP is committed to strengthening governance and institutional capacity (OP 6) and it delivers training for banks, covering AML measures as well as promotion of environmental and social safeguards and standards for digitalization of trade (SDG 9). The program promotes intra-regional and bilateral trade between DMCs (OP 7 and SDG 17). Since 2009, it has supported 25,398 transactions (76.8% of all transactions supported) that involve intra- regional trade and supported 8,429 transactions (25.4%) involving trade between DMCs.

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

45. The program is classified FI for environment and involuntary resettlement, and FI treated as C for indigenous peoples in accordance with the ADB's Safeguard Policy Statement. Pursuant to the expanded eligible safeguards categorization, the program intends to support the trade of commodities, goods, or services that in nature are of lower risk (Category C) for environment, involuntary resettlement, and indigenous people. The program will also expand its support to projects that may be classified category B for environment or involuntary resettlement. For these category B transactions, partner banks will be required to have ADB-endorsed ESMSs and demonstrated capacity to implement these prior to using ADB support on any category B project. In addition, on occasions and by exception only, ADB support can be used for transactions that are Category A for environment or involuntary resettlement and A or B for indigenous peoples impacts if the transactions are to support goods and equipment for ADB financed projects, and for which ADB compliance is already confirmed.

46. **Effective gender mainstreaming.** Key features of the gender action plan are as follows: (i) significant women's participation in training and seminars, (ii) human resource policies of participating banks enhanced, (iii) training and networking sessions for women-owned businesses focused on increasing their access to trade finance, and (iv) development of training for banks focused on improving the bank's customer service for female clientele. The TFP will submit periodic reports on the implementation of the gender measures.

47. There are no outstanding non-compliance issues with existing safeguards and social requirements implementation under the program.²⁸

B. Anticorruption Policy

48. All partner banks and distribution partners are advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions

²⁸ TFP's safeguards and social requirements implementation are further addressed in Environmental and Social Management Systems Arrangements (accessible from linked document 5 in Appendix 2).

prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.²⁹

C. Investment Limitations

49. The proposed additional financing is within the medium-term, country, industry, group, and single exposure limits for nonsovereign investments.

D. Assurances

50. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),³⁰ ADB will proceed with the proposed assistance upon establishing that participating governments that have yet to declare no objection to the proposed assistance will be asked to do so before the program is implemented in their country. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the ADB Board of Directors.

VI. RECOMMENDATION

51. I am satisfied that the proposed guarantees, loans, and (unfunded and funded) risk participation products would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the guarantees, loans, and (unfunded and funded) risk participation products of up to \$800,000,000 from ADB's ordinary capital resources for additional financing of the Trade Finance Program (as described in para. 27), and the changes in scope (as described in paras. 28 and 29 above), 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.

Masatsugu Asakawa
President

28 June 2021

²⁹ TFP's integrity due diligence and anti-corruption processes are further addressed in Details of Implementation Arrangements (accessible from linked document 2 in Appendix 2).

³⁰ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

REVISED DESIGN AND MONITORING FRAMEWORK

Impacts (2024) Current program^a Sustainable Development Goal 8, Target 8.10: Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all. ^b Overall program Strengthen the capacity of domestic financial institutions to encourage and expand access to banking, insurance, and financial services for all. This will be achieved by increasing access of DMC banks to trade finance through the program.			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
Outcome Revised: Support for trade finance in Asia and the Pacific expanded	1. Cumulative number of intraregional trade transactions from 2021–2023 is at least 14,000 (2018–2020 baseline: 12,744) 2. Cumulative number of bilateral trade transactions between DMCs from 2021–2023 is at least 5,000 (2018–2020 baseline: 4,620) 3. Average number of transactions involving small and medium-sized enterprises supported under the program from 2021–2023 is about 2,000 (2020 baseline: 2,114) ^c 4. Cumulative number of trade transactions supported under the program from 2021–2023 is at least 20,000 (2018–2020 baseline: 16,486) 5. Cumulative commitments generated under the program from 2021–2023 is at least \$9.2 billion (2018–2020 baseline: \$7.2 billion) 6. Average cofinancing mobilized under the program from 2021–2023 is about \$3 billion (2020 baseline: \$3 billion)	Program statistics ADB's triennial review report	Risks DMC banks are no longer interested in enhancing their capacity for trade finance Facilitating trade is not a priority for governments Newly imposed export and import restrictions prevent growth in trade
Outputs Overall program 1. Capacity to provide trade finance by the program's partner banks enhanced in a gender-inclusive manner 2. The expanded provision of trade finance sustained	1a. Conduct a total of at least 12 additional in-country seminars, training, webinars, or online training from 2021–2023 (2018–2020 baseline: 30) 1b. On average, at least 40% of participants in the TFP's training—conducted from 2021–2023 are female (2018–2019 baseline: not available) ^d 2a. Number of international banks participating in the program by the end of 2023 is at least 185 (2020 baseline: 180)	1a. Consultants' reports and/or workshop materials 1b. Consultants' reports 2a. Consultants' reports and/or	Political or economic instability cause international banks to withdraw trade credit lines Perceived risk heightened sustainability

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
3. Gender inclusiveness of participating banks' human resource policies enhanced	2b. Number of DMC banks participating in the program by the end of 2023 is at least 85 (2020 baseline: 79) 3a. From 2021–2023, the human resource policies of a total of at least 3 additional participating banks enhanced to support the increased hiring, retention and advancement of women in the workplace (2018–2020 baseline: 12)	workshop materials 2b. Program statistics 3a. ADB's triennial review report	Banks and other stakeholders lack the time, motivation, or incentives to engage in the environmental and social safeguards enhancement activities identified
4. Access to international trade finance of women-owned businesses enhanced	4a. From 2021–2023, a total of at least 5 training and networking sessions conducted for at least 100 women-owned businesses focused on increasing their access to trade finance. (2018–2020 baseline: not applicable) 4b. By the end of 2023, online or in-person training developed for TFP DMC partner banks focused on improving the bank's customer service for female clientele ^e (2020 baseline: not applicable)	4a.and/or workshop materials 4b.Consultants' reports	High turnover among those trained will reduce the expected benefits of training and awareness building
5. Environmental and social safeguards awareness for both the TFP and partner banks increased	5a. By the end of 2023, Trade Finance Program environmental and social safeguards guidelines approved and implemented (2020 baseline: not applicable) 5b. From 2021–2023, a total of at least 5 knowledge-based products related to environmental or social safeguards provided for partner banks (2018–2020 baseline: 0) 5c. From 2021–2023, safeguards due diligence and recommendations provided to a total of 10 DMC banks in alignment with the TFP (2018–2020 baseline: 0)	5a. ADB's triennial review report 5b. Consultants' reports 5c. Consultants' reports	
Key Activities with Milestones Output 1 to 5: <ol style="list-style-type: none"> 1.1. ADB conducts training and/or seminars on trade finance (Q3 2021–Q4 2023) 1.2. ADB signs program agreements with international banks (Q3 2021–Q4 2023) 1.3. ADB onboards new DMC banks (Q3 2021–Q4 2023) 1.4. Human resource policies reviewed and enhanced in DMC banks (Q3 2021) 1.5. Creation of Trade Finance Program environmental, gender and social safeguards guidelines and corresponding knowledge products (Q4 2023) 1.6. Training and networking sessions conducted for women-owned businesses (Q3 2021–Q4 2023) 1.7. Training developed for TFP DMC partner banks focused on improving the bank's customer service for female clientele (Q4 2023) 			

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
Input ADB: \$800 million (guarantees, loans and unfunded and funded risk participation) ^f Partner financial institutions will assume at least 15% of value of trade finance transactions. Risk distribution partners will risk share at least 10% of the aggregate program financing.			

ADB = Asian Development Bank, DMC = developing member country, Q = quarter, TFP = Trade Finance Program.

^a Original targets available in the revised design and monitoring framework in Program Results, Business Strategy and Plan (accessible from linked document 7 in Appendix 2).

^b United Nations Sustainable Development Knowledge Platform. *Sustainable Development Goal 8. (Target 8.10)*.

^c Based on the new methodology for the classification of small and medium-sized enterprises (SMEs) implemented in 2020, i.e., turnover ≤ \$15 million and/or 300 or fewer employees.

^d The technical issue that prevented the capture and reporting of sex disaggregated training attendance for the baseline has been resolved as of May 2021. A proxy baseline for female attendance of about 33% is calculated using attendance for TFP's in-person seminars in 2018 and 2019 (48 women out of a total of 124 attendees) and TFP webinars in 2020 (5 women out of a total of 36 attendees).

^e TFP will be responsible for developing the training and will target customer service to female clients in the bank's corporate banking, including women-owned SMEs, while the delivery of the training to the banks will be undertaken by ADB's Supply Chain Finance program.

^f The program is currently risk-weighted at 55% and thus consumes less economic capital than would otherwise be the case.

Source: Asian Development Bank (Trade Finance Program).

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=37909-034-4>

1. Sector Overview
2. Details of Implementation Arrangements
3. Contribution to Strategy 2030 Operational Priorities
4. Summary Poverty Reduction and Social Strategy
5. Environmental and Social Management System Arrangements
6. Gender Action Plan

Supplementary Document

7. Program Results, Business Strategy, and Plan