SPECIAL STUDY

EBRD Trade Facilitation Programme

European Bank
for Reconstruction and Development

EvD ID: SS20-154

May 2021

EBRD EVALUATION DEPARTMENT

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Abbreviations

ABI	Annual Bank Investment
ADB	Asian Development Bank
AfDB	African Development Bank
AML	Anti-Money Laundering
ASS	Agriculture Sector Strategy
ATFP	Arab Trade Financing Program
TQATQ	Assessment of Transition Qualities
BAFT	Bankers' Association for Finance and Trade
BOP	Balance of Payments
BRI	Belt and Road Initiative
CAGR	Compound annual growth rate
CAREC	Central Asia Regional Economic Cooperation
CAS	Central Asia
CB	Confirming Bank
CEB	Central Europe and the Baltics
COO	Countries of Operations
CRR	Capital Resources Review
CSDR	Country Strategy Delivery Reviews
CSU	Country Strategy Update
DCFTA	Deep and Comprehensive Free Trade Area
DEA	Digital Economy Agreements
DOTS	Development Outcome Tracking System
DTN	Digital Trade Network
EAP	East Asia and the Pacific
ECA	Europe and Central Asia
ExCA	Export Credit Agency
EEC	Eastern Europe and Caucuses
EIB	European Investment Bank
EPG	Economics, Policy and Governance
ESP	Environmental and Social Policy
ESS	Energy Sector Strategy
ETC	Early Transition Countries
ETI	Expected Transition Impact
EU	European Union
EUR	Euro
EVD	Evaluation Department
FCY	Foreign Currency Finance
FDI	Foreign Direct Investment
FI	Financial Institutions
FSS	Financial Sector Strategy
FSU	Former Soviet Union
GDP	Gross Domestic Product
GET	Green Economy Transition
GFC	Global Financial Crisis

GTLP	Global Trade Liquidity Program
GTFP	Global Trade Finance Programme
GVC	Global Value Chain
IAD	Internal Audit Department
IB	Issuer Bank
ICC	International Chamber of Commerce
ICT	Information Communication Technology
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IMF	International Monetary Fund
IPM	Investment Profitability Model
ITFC	International Islamic Trade Finance Corporation
KEI	Knowledge Economy Initiative
KYC	Know Your Client
LC	Letter of Credit
LCY	Local currency financing
LPI	Logistics Performance Index
MDB	Multilateral Development Banks
MENA	Middle East and North Africa
MFD	Maximising Finance for Development
MIGA	Multilateral Investment Guarantee Agency
NIF	EU Neighbourhood Investment Facility
PB	Partner Banks
PTI	Portfolio Transition Impact
RAROC	Risk Adjusted Return on Capital
RCA	Revolving Credit Agreements
RORC	Return on Required Capital
RPA	Risk Participation Agreement
SCF	Strategic Capital Framework
SEE	South Eastern Europe
SEFF	Sustainable Energy Financing Facilities
SEMED	South Eastern Mediterranean
SF	Supply Chain Finance
SME	Small and Medium Enterprises
SSF	Special Shareholders Fund
STCF	Structured Trade and Commodity Finance
SWIFT	Society for World-wide Interbank Financial Telecommunications
TA	Technical Assistance
TC	Technical Cooperation
TDB	Trade Development Bank
TEN-E	Trans-European Networks - Energy
TEN-T	Trans-European Networks - Transport
TF	Trade Finance
TFA	Trade Facilitation Agreement
TFFP	Trade Finance Facilitation Programme
TFP	Trade Finance Programme
TI	Transition Impact
TIM	Transition Impact Assessment Methodology

TQ	Transition Qualities
TiVA	Trade in Value Added
TFSP	Trade Facilitation Support Programme
TKY	Turkey
TOMS	Transition Objectives Measurement System
TSS	Transport Sector Strategy
UCC	Union Customs Code
URP	Unfunded Risk Participation
US	United States
VFM	Value for Money
WBG	World Bank Group
WBG MDA	West Bank and Gaza Multi-Donor Account
WTO	World Trade Organisation

Glossary

Confirmed export Letter of Credit	Documentary letter of credit confirmed by the participating bank but issued by another bank also including "silent confirmations". The vast majority of exposures in this product category constitute bank risk.
Corporate	A corporate exposure is defined as a debt obligation of a corporation, partnership or proprietorship. This excludes "sovereigns", "financial institutions" and "specialised" as separately defined. The source of repayment of the loan is based primarily on the ongoing operations of the borrower, rather than the cash flow from a project or property.
Factoring	A supplier sells its receivables at a discount to a third party (a factor) for early payment
Financial Institutions	Banks and non-bank financial institutions including leasing companies.
Issued import Letter of Credit	Documentary letter of credit issued by the participating bank, covering the movement of goods or services.
Loans for import/export	All loans classified as "trade" including but not limited to clean import loans, pre-export finance and post-import finance. Participating banks are asked to report loans for import and loans for export separately; additionally, a breakdown of loans where the counterparty is a bank and loans where the counterparty is a corporate is also requested.
Performance guarantees and performance standby Letter of Credits	Guarantee instruments issued by the participating banks, representing an irrevocable undertaking to make payment in the event the customer fails to perform a non-financial contractual obligation. Note – only includes performance instruments as distinguished from financial guarantee instruments (as determined by the nature of the contractual obligation that would trigger a payment under the guarantee).
Security Agent	The financial institution that holds the collateral on behalf of the lenders under a syndicated loan agreement
Sovereign	This category covers all exposure to counterparties treated as sovereigns under the standardised Basel approach. This predominantly includes sovereigns and their central banks. However, certain Public Sector Entities (PSEs), e.g. regional governments and local authorities identified as sovereigns in the standardised Basel approach, are also included in this category.
Specialised	The economic purpose of the loan is to acquire or finance an asset • The cash flow generated by the collateral is the loan's sole or almost exclusive source of repayment • The subject loan represents a significant liability in the borrower's capital structure

	• The primary determinant of credit risk is the variability of the cash flow generated by the collateral rather than the independent capacity of a broader commercial enterprise Examples include: project finance, income producing real estate, object finance (e.g. ships, aircraft, and satellites), commodities finance.
Supply chain finance (referred to payables finance)	Buyer-led programme within which sellers in the buyer's supply chain are able to access finance by means of receivables purchase.

Executive summary

The EBRD's Trade Facilitation Programme (TFP) was established in 1993 to support trade flows in Bank Countries of Operation (COOs) through short-term facilities to provide liquidity. Extended as a permanent €100 million framework facility in 1999, it accounted for almost €1.4 billion (14%) of Annual Bank Investment (ABI) in 2019, providing guarantees for risk mitigation and credit lines intermediated via local banks to SMEs. A new annual limit of €3.0 billion was agreed by the Board in July 2020.

The Audit Committee sought an evaluation of the TFP to inform its review of a proposed renewal this year in connection with an update of the Bank's Financial Sector Strategy (FSS). The FSS targets annual TFP volume using operational targets such as the number of transactions to calculate Transition Impact (TI).

EvD has completed two major evaluations of the TFP, in 2003 and 2010. This evaluation covers the period 2010-2019 and assesses how EBRD uses the TFP to develop and sustain trade across different regions and stages of transition. Areas of focus include strategic fit with EBRD's Transition Qualities (TQ), portfolio composition, and results and performance issues.

The evaluation provides background on trends in international trade and their major drivers, reviews other MDBs' approaches to trade facilitation, and summarises the findings of previous evaluations of trade facilitation activities. EBRD strategic objectives to facilitate trade at the corporate, country, sector and thematic level are reviewed. The relevance, effectiveness and efficiency of TFP objectives, outputs, structure, operations and performance are evaluated.

Key Points on Rationale for Trade Finance and Previous Experience

There is strong positive correlation between trade and GDP growth. Trade finance (TF) facilitates trade by providing liquidity and mitigating risks. Most MDBs introduced TF products in the early 2000s, and scaled them up in response to the Global Financial Crisis; some, such as the IFC, have a diversified menu of TF products that managed together with other working capital products and providing on line services. There are substantial inefficiencies with traditional paper based TF operations and G20 made enhancement of cross border payments a priority in 2020.

Most COOs are reasonably open, but trade has been largely flat since the GFC and declining in some regions. Imports significantly exceed exports, logistics infrastructure remains inadequate in most regions, and foreign direct investment is low and declining. An EBRD analysis of global value chains (GVCs) in COOs identifies opportunities to strengthen trade, but they require coordinated scaling up of investment in infrastructure, traded services and manufacturing outputs and improved access to finance.

Previous EVD evaluations concluded the TFP was probably generating benefits but they were trending down over time. Both studies concluded a TFP strategy was needed to link outputs to outcomes and impacts to enable an evidence-based assessment of performance. Separately, the Internal Audit Department's most recent review in 2018 flagged TFP's ability to set its own prices as a high risk and recommended procedures be strengthened. An EvD evaluation of a group of projects supporting cross-border physical integration in 2020 found the

Bank's financing had relatively weak impact on integration. EVD recommended EBRD prepare an integration strategy.

EBRD's Approach to Facilitating Trade

Trade facilitation is an important objective for EBRD, appearing in its founding documents and key strategies. EBRD's original definition of TI (1991-2015) focused on creating competitive markets, with trade flows being an important contributor. The Transition Qualities introduced in 2016 are based on the premise TI occurs by creating markets through a combination of policy dialogue, developing public institutional capacity to regulate markets, and private investment.

Sector strategies, such as the FSS, define ABI baselines to measure staff performance and remuneration. The FSS encompasses TFP (as it is offered only to banks), but does not elaborate a TFP strategy, and provides little guidance on expected portfolio composition. The Green Economy Transition is now a priority.

TFP Structure and Operations

A special purpose unit in the FI Department manages TFP through a large network of Participating Banks (PBs). The Board has delegated to Management most TFP financing decisions. Management has in turn delegated pricing to the TFP team, which agrees parameters with Risk Management, and reports to OpsCom. TFP uses a dedicated management information system to manage transactions, and an in-house ex ante model that it uses for pricing purposes. TFP reports to OpsCom on the basis of ex post margins and Return on Required Capital (RORC).

TFP Portfolio

TFP's ABI has been growing at 10% pa and accounted for 45% of FI's ABI in 2019. TFP's funding limit is set for turnover and it increased from €1.5 billion to €2.0 billion in 2019. Initial financial results for 2020 show a record 2,090 transactions worth €3.3 billion. While business is up in SEMED, Cyprus and Greece, turnover in Early Transition Countries (ETCs) has been negligible and volumes in Eastern Europe and Central Asia (EEC) have declined.

TFP activity is dominated by sectors such as oil and gas and metallurgy products (40%), then food (30%). About 90% of turnover comes from imports, and almost 100% is denominated in USD or EUR. TFP does not mobilise finance through B Loans, but it does transfer about 15% of its portfolio to third parties through Unfunded Risk Participations (URPs). The value of Technical Cooperation (TC) grants outstanding for TFP was €11.9 million in 2019; of which €7.8 million came from the Shareholders Special Fund (SSF).

Evaluation Questions and Main Findings

1) Are TFP objectives clearly identified, relevant and well-suited to COO circumstances and the institutional context of EBRD; is TFP support likely to be additional?

The promotion of trade is an important objective for COOs and EBRD. There is evidence that SMEs have difficulty accessing trade finance due to complex processes associated with Know Your Client (KYC) and customs procedures. Offsetting this result, the evaluation did not find

evidence availability of finance from banks is a constraint. Liquidity in COOs has been high following the Global Financial Crisis and widespread application of quantitative easing policies.

TFP's objectives lack clarity; multiple objectives are presented in multiple documents. In some cases, targets can be in conflict and those not achieved are discarded. TFP supports the promotion of competitive markets, while at the same time it is subsidising training inputs for banks in COOs. Integration and resilience have become priorities more recently, but it is not clear how these goals are pursued, as they are not mapped onto end user requirements

Board documents suggest that TFP liquidity can substitute for financial markets in times of crisis. In practice TFP is very small relative to trade volumes, even in the context of a crisis. TFP volumes do not vary counter-cyclically; they have grown consistently in the absence of crises and the presence of high levels of liquidity in COOs. There is evidence that the liquidity problems arising from Covid 19 were relatively short term, mainly arising in the third quarter of 2020.

There is little evidence of TFP financial additionality. While TFP has capacity to offer longer tenors and larger amounts for individual transactions than the market, this capacity does not appear to be valued, and it is not being utilised. The TF market in COOs is now relatively mature and most commercial banks have TF capacity. There is evidence TFP prices are often set below commercial rates, creating risks of crowding out the private sector.

Similarly, TFP training programmes may not provide much non-financial additionality as skills in trade finance for bank staff are now a widely available commercial input at very low cost. There is no clear economic justification to provide TF with subsidy using EBRD and donor grants.

2) What have been TFP's outputs, outcomes and impacts and were they consistent with goals? (Effectiveness)

Despite the unexpected cessation of trading in Russia in 2015, TFP turnover tripled over the evaluation period. Growth has occurred at a time when international trade in COOs has been flat, or in some cases declining. TFP's guarantee was its dominant instrument over the evaluation period, short term loans declined, and factor services made almost a zero contribution.

TFP output definitions have changed over time and they are not clear. Operational targets are the primary basis for reporting on performance. Currently they focus on number of transactions and number of PB staff trained with EBRD grants, which are used as proxies for TFP capacity in banks in COOs. TFP has not met about 50% of its operational TI market expansion targets in recent years, but it has easily achieved targets for transfer of skills to PBs. Conceptually, guarantees provide the most direct link with trade, as loans and factoring facilities are fungible with other sources of capital, but there is no evidence to confirm this result.

There is no linkage between outputs and outcomes, and no clear objectives that can be used as a basis to draw conclusions on changes in trade in COOs arising from the TFP outputs. TFP outcomes are defined in various documents as the expansion of TF in under-served markets such as Early Transition Countries (ETC), intra-regional trade, and SMEs in COOs, via private sector banks. An analysis of trends in regional TFP turnover shows a proportional decline in ETCs and an increase in SEMED region, Greece and Cyprus. There has been an increase in

intra-regional TFP but it is still relatively low at 30% of TFP turnover. TFP has achieved limited success developing TF provided by small regional private banks in ETCs, and the dominance of large trades in oil and gas and metallurgy indicates SMEs have been minor beneficiaries of TFP.

It is difficult to identify TFP impacts such as market expansion or maintenance of liquidity as there is no clear theory of change, or basis for measurement. TIMS performance assessments are misaligned, focussing on number of transactions and capacity of PBs, rather than the extent markets are supporting integration and growth in international trade. Expected Transition Impact (ETI) and Portfolio Transition Impact (PTI) scores for TFP have deteriorated in recent years. A review of trends in macro TI scores and ATQs for integration and resilience indicates these parameters are static and do not reflect changes arising from material and growing levels of TFP support.

3) How efficient is the TFP programme in terms of resource costs and profitability? (Efficiency)

Client responsiveness and operational performance seem to be working well, but there are concerns about financial performance. TFP financial reports focus on ex post margins before costs, and estimates of Return on Required Capital (RORC). Estimates of EBRD overheads included in the RORC are calculated by TFP rather than Finance. RORC is normally only used to report on bank wide performance. Results show profitability is low relative to EBRD's other operations and declining over time.

Approved TFP TC accounted for about 26% of TFP's annual net income over the period 2016-2019. Most of the TC was sourced from SSF, and it was not possible to obtain information on actual drawdowns. These funds were used to develop capacity of PBs to conduct trade finance. There is a high risk these funds are crowding out commercial bank's investments in new TF capacity in COOs. There appears to be many opportunities to use these funds to facilitate new digitalisation initiatives, rather than entrench inefficient paper based TF techniques. .

The combination of low and declining margins relative to other EBRD outputs, potentially significant levels of subsidisation, and low rates of mobilisation (about 15% of the TFP portfolio), raise efficiency questions for TFP relative to other EBRD facilities.

Ways to improve TFP performance

A striking finding is the apparent lack of responsiveness of TFP to market developments or internal EBRD reviews. The product mix has hardly changed since the facility was established in 1999. Two previous evaluations recommended an evaluable strategic framework be developed for TFP; this was never done and TFP's framework is less evaluable today than in 2000. Despite repeated EvD and IAD flags about the risks of TFP having too much control over pricing and evidence of under-pricing, these issues remain unaddressed.

TFP's underlying development model reflects earlier concepts of demonstration effects and using subsidies to stimulate competition. A better approach would be rooted in permanent problem solving and market creation. Reporting and assessment of TI is mainly based on number of transactions, which provide limited information on actual financing volumes, or benefits for end

users such as SMEs in ETCs. Meanwhile global trade is seeing high levels of technical change based on the development of resilient GVCs, and TF using digital technology.

With 40% of TFP trade derived from high emissions sectors (oil and gas and metallurgy products) there are questions about sustainability of future demand and consistency with the Paris Agreement under GET 2.1. Most growth is occurring in non-transition countries such as Greece and Cyprus and denominated in foreign currency.

The resolution of trade constraints in COOs and increase in value addition in GVCs will require a multi-pronged approach across countries. Initiatives need to address policy, regulations, institutions, investments in infrastructure, and access to finance. A cascade approach like that used by the World Bank group could be adopted whereby EBRD develops an integration strategy using advice and guarantees to create markets and mobilise third party private finance before own finance. There are opportunities to design products that meet both working capital and investment needs. There may be opportunities to develop different strategies to address resilience and integration goals.

Resources should be scaled to the problems being addressed. There is a need to ensure appropriate segregation of duties, monitoring of on-going compliance, and maintaining complete and accurate records. Staff incentives for TFP are based on ABI volume rather than attainment of TI, additionality, and financial sustainability. Pricing procedures and reporting to the Board on TFP profitability need to be strengthened.

<u>**Recommendations**</u>

- **Prepare a Business Case for TFP for discussion with the Board**. The Business case should analyse options for new products and markets, institutional arrangements for meeting the needs of both banking and corporate clients, and TC requirements to support market development and mobilisation
- **Present to the Board a TFP results framework that is based on a Theory of Change** and establishes causal links from activities to impacts, and scales resource allocation relative to expected contribution to TI
- **Present to the Board a review of governance for pricing of finance products (including TFP)** - make recommendations on options for reform including establishment of ex ante minimum return benchmarks for all of EBRD's instruments and inclusion of minimum return on investment component in staff scorecards
- **Transfer responsibility for mobilisation of the TFP portfolio to Loan Syndications**.

1. Introduction

1.1. Purpose of the Study

The Audit Committee requested Evaluation Department (EVD) to prepare a review of the Trade Facilitation Programme (TFP) in 2020. TFP provides trade finance to banks in EBRD's Countries of Operation (COO). TFP delivered Annual Bank Investment (ABI) in 2019 of about €1.39 billion, equal to 14% of total ABI, and 45% of Financial Institutions (FI) Department's ABI. The Committee is seeking an independent review of the facility to inform the Board's decision on the proposed renewal of the TFP in 2021. This renewal will occur in the context of the updating of the Financial Sector Strategy (FSS) in 2021.

1.2. Trade Facilitation in EBRD

TFP began operations in 1993, initially as a series of short-term individual facilities. In January 1999 TFP was established as a more permanent €100 million framework to provide trade finance in its COOs, subject to periodic reviews by the Board. TFP outputs consist of guarantees for trade finance transactions, and liquidity in the form of revolving credit facilities to Partner Banks (PBs) for upstream and downstream imports and exports, and factoring companies that trade in export receivables in COOs.

TFP objectives have changed over time. From 1999 to 2011 TFP focused on achieving transition impact (TI) by fostering regional trade, providing liquidity and strengthening PBs. In 2011, management prepared a strategic review, and developed a results framework in 2012 focussed on number of TFP transactions that continues to be the primary measure of performance. In 2016, the TFP strategy was aligned with the FSS, and the TI qualities (TQ) of integration and resilience**.** In addition to contributing to TI, TFP financings need to comply with standard additionality and bankability criteria.

TFP has grown rapidly in size over the last decade. In 2009 the TFP limit increased from €800 million to €1.5 billion in response to the Global Financial Crisis (GFC). In November 2019, the Board approved an expansion of the TFP limit to €2.0 billion until 2021. TFP featured prominently in the Solidarity Package approved in April 2020 to help firms cope with the Covid-19 crisis. The Solidarity Package enabled TFP to increase its limits with existing PBs to help maintain liquidity. In July 2020 the Board approved an increase in the programme's annual limit from €2.0 billion to €3.0 billion. Initial financial results for 2020 indicate TFP provided a record 2,090 transactions worth €3.3 billion.

EvD evaluated the TFP in 2003 and 2010. The evaluation period for this study is 2010-2019. The study reviews how EBRD uses TFP to develop and sustain trade across regions and stages of transition. Areas of interest include similar efforts in other multilateral development banks (MDBs), strategic fit with EBRD's new TQs, changes in the composition of the TFP portfolio, results and performance issues.

1.3. Objectives of the Study

The evaluation profiles the scope and scale of TFP operations, and identifies how it contributes to EBRD's transition objectives. The following questions guided the evaluation:

1) **Relevance and Additionality**: Are TFP objectives clearly identified, are they relevant and well-suited to COO circumstances and the institutional context of EBRD, and is support likely to be additional?
2) **Effectiveness**: What has been the outputs, outcomes and impacts of the TFP, and have they achieved their goals?
3) **Efficiency:** How efficient is the TFP programme, looking at resource costs and profitability?

4) **Moving Forward:** Does experience suggest ways to improve the performance of the TFP initiatives?

Based on the analysis, recommendations are proposed to help realise opportunities to improve future performance of the TFP.

1.4. Evaluation Approach and Limitations

In Chapter 2 the evaluation reviews the rationale for facilitating international trade, trends in traded goods and services, and major drivers of growth in trade. The report looks at MDBs' approaches to support this activity using instruments such as trade finance. The findings of previous evaluations of trade facilitation activities such as TFP are briefly summarised.

In Chapter 3 the study evaluates EBRD's trade finance programme. The report provides context for the TFP by assessing the growth of international trade in COOs, factors underpinning trade, and the rationale for EBRD to facilitate trade. The report then defines EBRD strategic objectives to facilitate trade in COOs at the corporate, country, sector and thematic level. The scope of TFP outputs, objectives, organization structure and operations, portfolio composition, and methods of financing are reviewed. TFP performance is evaluated, looking at relevance, effectiveness and efficiency. This information provides insights into how TFP is operating in practice, relative to TFP objectives, and TI and financial performance to date.

In Chapter 4 the study reviews opportunities to improve the performance of TFP. Critical TFP constraints identified by the evaluation are summarised, followed by a discussion of possible opportunities on how EBRD can respond.

The main limitation of the study was the inability of EVD staff to conduct country visits and hold face-to-face meetings with stakeholders. It was necessary to rely on indirect methods of data collection such as desk research and communications using questionnaires and email. The TFP team and management had limited capacity to discuss the TFP with EVD due to lack of staff and challenges of working from home. There had originally been an intention to prepare several country case studies, but there are no country strategies for TFP that provide a basis for analysis. As a result, the study has focused on FSS and TFP approvals and reports, and trends in the overall TFP portfolio over time.

Offsetting these constraints, the study benefited from two prior EBRD TFP evaluations prepared in 2003 and 2010. These studies provided background information, which helped reduce the time required to identify critical issues, and potential opportunities to strengthen future TFP operations.

1.5. Structure of the Report

The balance of the report is as follows:

- Section 2: Trade Facilitation;
- Section 3: Evaluation of the TFP; and
- Section 4: Implications of Findings for TFP.

Annexes provide additional information:

- Annex 1: Trends in International Trade and Investment
- Annex 2: Trade Finance Instruments
- Annex 3: TFP Programmes at Other MDBs
- Annex 4: External Evaluations and Studies;
- Annex 5: EBRD TFP Evaluations and Reviews; and
- Annex 6: TFP Results Framework.

2. Trade Facilitation

2.1 Overview

This chapter provides an overview of international trade and its contribution to economic growth, transition and development. A review of trade finance sets out why it is important, how it enables the private sector to conduct international trade, and the main drivers of current and future demand. MDB and donor efforts to facilitate trade are analysed, and the findings of previous evaluations on TFPs presented.

2.2 International Trade and Investment

Key Facts

- There is a strong positive correlation between economic growth, international trade and FDI
- Since 2000 global GDP more than doubled and global trade flows trebled
- Growth was supported by liberalisation under WTO and development of infrastructure networks for the internet, telecommunications, energy and transport
- Global trade continued to grow despite the GFC in 2008 and trade disputes between United States (US) and China starting in 2018, but growth in Europe and Central Asia has been flat since 2008
- Supply chains have become increasingly fragmented, services have become more important and value addition in global value chains (GVCs) is being driven by both exports and imports
- There are a range of factors influencing the level of GVC integration including digitalization, trade policy, logistics, skills and availability of finance
- Climate risk is increasing the likelihood of regional and transport related CO2 emissions taxes, and trade disputes and Covid 19, which will affect future trade.

There is a strong positive correlation between growth in per capita GDP and trade. Many studies have provided evidence that trade causes growth through effects such as competition, access to new technology, lower costs, higher quality, more reliability, and better use of resources. Evidence shows trade has positive links with foreign direct investment (FDI) and technology transfer.

Since 2000, global GDP more than doubled and trade flows for exported merchandise goods trebled from US$6.5 trillion to US$19.0 trillion in 2019 (see **Annex 1**). Initially, growth was driven by trade liberalisation through programmes leading to accession to World Trade Organisation (WTO). These reforms enabled developing and transition countries to increase their share of international trade. Growth has been supported by developments of transport corridors such as: (i) EU's TEN-T and TEN-E (Trans-European Networks for transport and energy, respectively), and (ii) China's Belt and Road Initiative (BRI), which is developing overland and maritime trade routes between China and Europe. In EBRD's Transition Report 2018-19 it was estimated that as a consequence of BRI, real GDP per capita in some Central Asian (CAS) countries was likely to be 4 to 6% higher than it would be otherwise.

After the Global Financial Crisis (GFC) in 2008 and trade disputes between US and China starting in 2018, global growth started to slow. In COOs, growth has been at best flat, and in regions such as CAS it has started to decline. Trade has become increasingly fragmented and focused on intermediate components and services that form segments of GVC networks. GVCs use hub and spoke models to assemble components from multiple countries for final trade to third countries. Traditional trade statistics do not capture the value added from these intermediate operations, prompting the development of new statistics that measure trade in "value added" (TiVA) terms. TiVA statistics highlight the importance of services, which account for more than 50% of total global exports.[1]

Economic studies of TiVA indicate there is a range of factors that influence the level of GVC integration. Factors include availability of natural resources, the size of the domestic economy, exchange rates, competitiveness, participation in trade agreements, tariffs and trade barriers, transportation costs, ability to enforce contracts, language, and culture**.** Drivers of GVC that can increase participation include: (i) Trade policy; (ii) Regulatory and business environment; (iii) FDI; (iv) Logistics; (v) Skilled labour force and production standards; and (vi) **Access to finance**.[2]

In addition to these factors, climate risk is starting to impact on trade. The European Commission (EC) is considering a carbon border tax that will require European importers to pay for the CO2 emissions arising from the foreign production of the goods they buy. Other things being equal, this tax would reduce international trade, as it would not apply to companies within the European Union (EU). More generally, banks are becoming increasingly aware of the risks of investing in fossils fuels, and the need to exit from these sectors to mitigate risks of stranded costs and comply with carbon emission policies. In 2019, EIB announced it would not finance unabated, fossil fuel energy projects, including gas, from the end of 2021.

In the immediate term, the COVID-19 pandemic is disrupting trade and it has led to the deepest global recession since the Second World War. In January 2021 IMF reported that global GDP shrank by 3.5% in 2020, and it will grow by 5.5% in 2021. The pandemic, in association with climate change considerations, has led to a rethinking about supply chains, particularly in the area of diversification, and bringing supply closer to home to increase resilience.

2.3 Trade Finance

Key Facts

- Trade finance (TF) facilitates growth in global trade by providing liquidity and mitigating financing risks such as fraud for importers and exporters
- G20 has made the enhancement of cross border payments a priority in 2020
- TF ranges from guarantees to short term working capital for cross border trades and medium to long term Export Credit Agency finance
- Digitalisation, emergence of fintechs, and growth of supply chain finance is impacting on TF
- In the 1980s and 1990s MDBs focused on trade liberalisation and publicly financed infrastructure
- Most MDBs introduced TF products in the early 2000s and then scaled up to help mitigate liquidity needs in the GFC, and more recently economic shocks from Covid 19
- MDBs such as IFC have diversified TF products and grouped them with other working capital facilities such as warehouse finance for agricultural exports in low income countries

2.3.1 Overview

Trade finance (TF) products facilitate growth in global trade by providing liquidity and mitigating financing risks for importers and exporters. Risks arise for traders in areas such as weak credit due to lack of knowledge of clients' foreign customs and trade procedures, fraud, inability to enforce collateral, and the need to comply with expensive Know Your Client (KYC), Anti-Money Laundering (AML) and Anti-Terrorism Laws.

The G20 has made the enhancing of cross-border payments a priority for 2020. In July 2020 the Bank of International Settlements published a report on behalf of the G20[3] which identified actions to strengthen cross-border payments through improvements in technology and international cooperation. A roadmap to enhance cross-border payments was submitted to the G20 Finance Ministers and Central Bank Governors

in October 2020. The roadmap identifies areas for further work, including: (i) strengthening and standardising regulatory frameworks, improving existing arrangements, and exploring the potential role of new payment infrastructures and methods.

Cross border trade finance can be disaggregated into short-term commercial trade finance and medium to long term export finance (**Table 1 and Annex 2**).

Table 1: Products Classified as Trade Finance and Export Finance

Trade finance (short term)	Export finance (medium and long term)
• (Issued) import letters of credit (LC) • (Confirmed) export LC • Performance guarantees and standby LCs • Loans for import/export • Supply-chain finance (payables finance)	Products (e.g. export credits) for which an Export Credit Agency (ExCA) has provided a state-backed guarantee or insurance to the trade finance bank

Source: International Chamber of Commerce (ICC) Trade Register Report

Short-term trade finance is the main area of activity for MDBs. ICC reported in 2019 that on average LCs and loans have maturities of 111-133 days, and performance guarantees 624 days. About 80% of global trade transactions – accounting for about US$15 trillion a year – rely on specialized loans or guarantees.[4] The different types of trade finance in **Table 1** reflect different stages in the trade cycle, and can be categorised as unfunded and funded instruments. Unfunded trade finance instruments consist of: (i) LCs from local issuing banks (IBs) to exporters and international confirming banks (CBs); and (ii) Standby LCs that counter-guarantee the LCs. Funded instruments consist of: (i) short-term loans to importers or exports; and (ii) supply-chain finance (SF) to importers.

ICC[5] data confirms short-term trade finance has a low credit risk compared to other banking products. The average default rate from 2007-2018 was 0.02% for export LCs and 0.11% for import LCs. Low risk is due to strong collateral and documented credit operations for banks. Offsetting this result, low risk and high operational costs have led to low margins on trade finance.[6]

Export finance products from ExCAs have much longer maturities than trade finance. ICC reported that 56% of their sample of export finance transactions in 2019 was greater than 10 years, and only 11% had maturities of five years or less. OECD governments dominate the export finance market through state owned ExCAs, which can provide a mix of loans, guarantees and insurance, typically in hard currency.

2.3.2 Trends in Trade Finance

The composition of short-term trade finance has changed over the last two decades. In 2000, LCs and short-term loans accounted for about 25% of global trade finance. By 2020 OECD estimates this figure will fall to about 18% and the balance of traded goods and services will be financed with open account products such as SF (55%), and cash advances (26%). The shift away from short-term loans and LCs to SF is due to high bank operating costs. The typical cost-to-income ratio in traditional trade finance is 50-60%, meaning more than half of the price charged to clients for trade finance needs to cover operational expenses, before covering the costs of risk, liquidity and capital.

High costs arise due to the need to process large numbers of paper documents using labour intensive methods (wet signatures, company seals etc). It is estimated in a typical cross border trade, the processing of trade credit from banks and insurers to warehouses and customs, requires on average the exchange of 36 original documents and about 240 copies. In addition to incurring high costs, this level of manual processing introduces errors and risks of miscommunication and fraud.[7]

Changes in regulatory requirements have increased the cost for banks providing trade finance.. Banks' capital costs in trade finance are expected to increase by 18% to 40% under Basel III that will be implemented by 2022. Cost increases are due to tighter regulation according to Bankers' Association for Finance and Trade (BAFT). Large commodity financiers such as ABN Amro, ING and BNP Paribas have announced they will exit or scale back trade operations.[8] Offsetting this result, an ICC study in 2020 found that "Banks around the world are looking to expand their trade finance business…" and "Digital trade is widely seen as a key enabler to help banks close the trade finance gap, with 55% of survey respondents positioning themselves to service more MSMEs using technology solutions"

Digitalization and automation using online platforms are accelerating the shift to open account solutions such as SF due to increased availability of data, and better access to suppliers. This trend is enabling services to substitute for physical goods, and enhancing small and medium-sized enterprises' (SME) ability to access world markets. Financing is collaterised by data on client's ability to pay, and online platforms to make payments and access finance services such as loans and insurance.

SF provides exporters with liquidity and the cost of finance is often lower than own borrowing as it is based on the importer's credit standing, rather than the exporter's credit history. Importers (buyers) like SF as it helps secure their supply chain. Improved technology and digitisation solutions, such as e-invoicing, prepayments to escrow accounts, and automated reconciliations, have enabled the adoption of SF as origination can occur at the level of an individual order, with much lower average values than a traditional LC transaction.

In recent years, non-bank fintech companies have captured a large portion of the new SF business, especially from SMEs that many incumbent banks have difficulty serving profitably. Fintechs have the ability to create eco-systems that integrate procurement and accounts payable, and provide access to related businesses through a single online platform. Technology such as digital identities and block-chain have reduced risks of fraud and increased trust by generating widely available reliable data on transactions.

There are significant potential synergies between fintechs and their online platforms, and banks with their financing capacity. Banks have developed credit controls, client risk-assessment capabilities and balance sheet capacity to provide a range of financial instruments and maintain liquidity. Banks have started to emulate the fintechs and they are developing their own online platform capability.

In Europe, We.trade was launched in January 2019 and it is a joint-venture company owned by 12 European banks[9] and IBM. We.trade provides online block-chain technology, and by mid-2020 it had issued licenses to 16 banks across 15 countries. We.trade targets European SME to SME trade, and it has reduced processing time for an international trade transaction from 7 days to 1 hour. In Asia, Contour launched in January 2020 and it is owned by nine American and European banks.[10] Contour is simplifying

trade finance using block-chain, particularly for LCs, and it is reported to have reduced the processing time for this instrument by about 7 days.[11]

Governments are responding to these developments. In June 2020 the United Kingdom (UK) announced it was launching a digital trade network (DTN) led by a government organisation supporting UK entrepreneurs operating in Singapore, Australia and Japan. Singapore has been developing new trading relationships- referred to as digital economy agreements (DEAs) with Australia, New Zealand and Chile. DEAs align digital rules and standards, facilitating inter-operability between cross border digital systems.

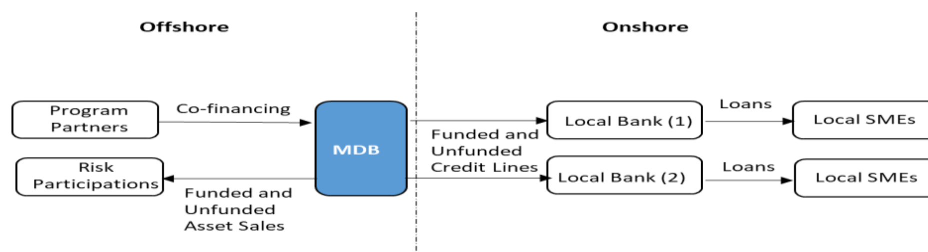
Covid 19 is having a profound effect on trade finance, although the precise impacts in the medium term are hard to determine at this point. Risk perceptions about non-payment in international trade in the first half of 2020 were at the highest levels in a decade. Banks were reluctant to take on payment risks in countries where economic conditions were deteriorating. These developments meant Covid 19 is likely to have reduced trade and increased demand for traditional trade finance products such as LCs in the short term to mitigate cross border risks. The pandemic may temporarily reverse the shift to open account trade and SF, although in the medium term it seems likely it will increase the use of open account products using online platforms. OECD reported that by May 2020 online orders had increased by 50% year on year in Europe, and 120% in North America, with part of this growth being met by increases in cross border trade.[12]

2.4 MDB Responses to Facilitate Trade

MDB efforts to facilitate trade have evolved over time. MDBs have tended to separate trade facilitation into public sector operations that focus on regulatory reform and financing of infrastructure, and private sector operations that provide various types of investment finance and working capital. Public sector programmes were prominent in the 1980s and 1990s, particularly in the context of large-scale privatisation.

Most MDBs started providing commercial trade finance instruments such as standby LCs to international CBs in the early 2000s. These instruments complemented funded and unfunded multi-currency commercial credit lines provided to local banks for on lending to local SMEs such as producers, exporters, importers, and downstream customers. Mobilisation and leverage from these facilities was achieved with co-financing and asset sales through funded and unfunded risk participations (**Figure 1**).

Figure 1: MDB Import Trade Finance Credit Lines



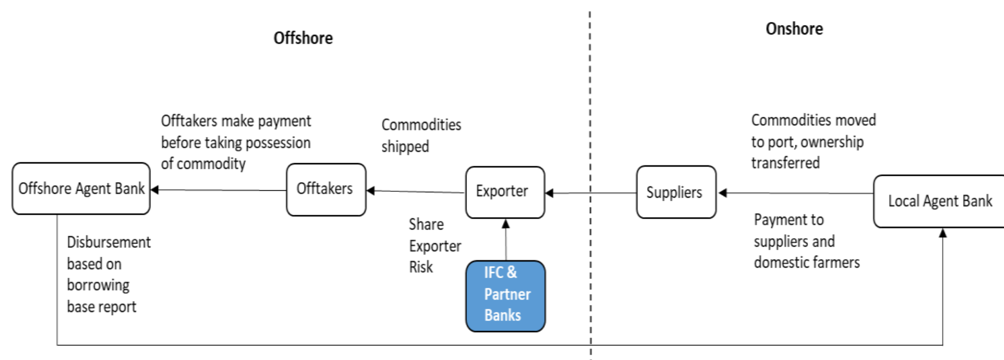
Source: EVD

MDB trade guarantees and credit facilities are large, often accounting for billions of dollars of their resources (see Annex 3). MDBs scaled up these facilities during the GFC in 2008 and again with the Covid 19 crisis in 2020 to provide trade finance as emergency liquidity in the global economy.[13] Recently, MDB's such as Asian Development Bank (ADB) have been actively supporting innovation in digital trade finance.

In most cases, the MDB public sector TFP operations do not have any strong links with their private sector trade finance facilities. WBG has started to address this issue through its Maximizing Finance for Development (MFD) strategy and the use of a "cascade" which prioritises the removal of market impediments by providing advice to governments and mobilisation of third party private finance, before using public sector financing**.** In 2018 the IFC 3.0 strategy was introduced and it supports integration of GVCs by building on upstream public sector policy and regulatory reforms, development of transport infrastructure, and providing finance to SMEs to support GVCs. IFC provides this financing directly to suppliers via web-based supplier finance platforms or indirectly through financial institutions.

IFC has been innovating new working capital facilities that are not limited to guarantees and credit lines for banks and are designed for use by corporate clients. For example, IFC has set up a relatively small-scale export oriented TF facility secured by warehouse inventory**.** More recently, IFC established a structured finance facility that combines elements of its various working capital instruments for food and high valued energy (oil) commodity trades. The Structured Trade and Commodity Finance (STCF) initiative provides short-term liquidity and risk mitigation for the trade of critical commodities in emerging markets. Facilities typically consist of secured revolving short-term trade finance, with a commercial bank acting as security agent.[14] STCF uses collateral management to support lending at all stages of the supply chain (exporter/producers, trading companies, importer/processors) (**Figure 2**). Under these arrangements, the Agent Banks' escrow facility holds pre-payments until supply of goods or services is confirmed, and the security is more important than the actual provision of liquidity in the form of cash or guarantees.

Figure 2: Example of IFC's STCF Export Financing Structure



Source: IFC

MDBs are active in the provision of commercial project finance, developing private sector long life infrastructure such as seaports and airports in developing countries. These facilities finance exports of agriculture, oil, and mining commodities, and enable energy projects to import technology for generation and distribution. MDBs tend to collaborate, rather than compete with ExCAs, and the provision of export finance, and focus on hard currency financing of local infrastructure. A critical factor driving the ExCA business model is the availability of FDI.

WBG has been directly supporting ExCAs such as Trade Development Bank (TDB) in South Africa using a mix of funded and unfunded instruments.[15] In July 2020 MIGA announced it had provided TDB a €359 million guarantee with a tenor of up to 10 years. The guarantee backs up a TDB loan syndicated to a collection of international lenders including Citi and Standard Chartered Bank. The facility will diversify

TDB sources of funding, and support the import of critical food, and fuel imports. At least €50 million will support construction of healthcare facilities. This was the first time MIGA has provided a non-sovereign guarantee to a regional development bank. This facility complemented a WBG sovereign loan and a concessional technical assistance credit provided to TDB to support infrastructure and SME financing**.**

These developments indicate substantial opportunities for MDBs to scale up use of guarantees, combined with unfunded offshore escrow offtake arrangements, FDI and project finance, to facilitate growth in exports of major commodities. In some respects, China has used aspects of this model of combining offtake and investment in its BRI, but it has not yet emerged as an important financing structure for MDBs.

2.5 Issues and Lessons Identified by Previous Evaluations

An overview of various MDB TFP operations is set out in **Annex 3** and findings of MDB evaluations of TFPs in **Annexes 4 and 5**. The main points are as follows:

General:

- TFP constraints vary across regions, depending on whether countries are fragile or non-fragile, and oil importing or oil exporting;
- Policies are required to reduce information asymmetries, facilitate sharing of credit information, and improve availability of collateral;

EBRD - First TFP Evaluation - Operations 1998-2002

- EVD evaluated TFP in 2003 against EBRD's TI, Additionality and Bankability and rated it "Successful";
- TFP only reported the number of transactions and volumes, and it did not define specific measurable TI, operational objectives, or milestones to evaluate performance in areas such as intra-regional trade or contribution to country strategies;
- TFP helped foster transparency and develop the SWIFT payment system, Union Customs Code (UCC) and Basel Capital Accord standards to promote international trade in its COOs;
- Additionality was based on EBRD's provision of longer tenors and larger transactions than commercial finance, and the development of its network of PBs (both IBs and CBs);
- TFP fell short of its main objective of helping to restore intra-regional trade, or convince local banks to supply confirmed LCs to local exporters;
- TFP could not deliver systemic reform just by supporting PBs at the project level;
- Less than 25% of TFP's guarantees involved risk sharing by CBs or others (mainly donor funds), and there were opportunities to scale up risk sharing; and
- EVD recommended inter alia that a 3-year business plan be prepared for TFP with measurable targets for outputs and outcomes.

EBRD - Second TFP Evaluation - Operations 1999-2008

- There had been no change to the TFP to reflect EVD's recommendations to re-specify TFP TIs, mapped onto outputs and outcomes, or the development of a strategic plan;
- Performance benchmarking continued to be based on volume rather than programme objectives or impacts. TFP was not part of any formal policy framework or sector strategy;

- Since the previous evaluation, TFP turnover had grown nearly 20 X, and was equivalent to about 18% of bank direct financing in 2008;
- TFP was not subject to regular TIMS reviews, and it was not amenable to ex post evaluation as there were no targets or benchmarks;
- The study concluded high initial relevance had declined, apart from a brief period following the GFC;
- International banks and ExCAs were active in EBRD's TFP markets, indicating strong competition;
- Coupled with a lack of transparency over EBRD pricing, these developments provided evidence additionality was declining in the period leading up to the GFC in its main TFP markets;
- TFP was successful if measured in terms of growth in volume, but there was no link to TIs;
- The key TFP TI was the development of bank linkages and subsequent deepening of the commercial relationships providing the guarantee product;
- Efficiency, in the form of financial performance was satisfactory. Returns were in line with expectations, although there were no targets, and results negative after accounting for provisions;
- There was evidence FI used TFP as an "on-off" gap filler to meet departmental scorecard targets;
- Oversight arrangements were required to monitor how TFP instruments are priced; and
- EVD recommended, inter alia, that EBRD fully restate TFP's strategy, and redesign operational and performance parameters and monitoring processes.

EBRD – Internal Audit Department (IAD) 2009

- IAD found evidence TFP had been used by IBs as a source of working capital for importers and exporters rather than funding specific trade or structured trade finance operations;
- There was evidence TFP financed related party transactions, and sub-borrowers not located in COOs;
- Levels of information collected by TFP were inadequate and staff numbers appeared insufficient relative to volume of transactions;

EBRD – Internal Audit Department 2018

- IAD identified a high risk issue related to delegation of pricing to the TFP team, and the need for EBRD to ensure an appropriate incentive structure and monitoring of TPF pricing and profitability by:
    (a) establishing financial performance targets for the TFP team;
    (b) sharing the results of TFP pricing reviews with Risk Management; and
    (c) calculating TFP revenues using accruals to enhance the reliability of profitability indicators.
- IAD identified two medium risk issues: there was a need to compensate for sub-zero EURIBOR on uncommitted facilities and review the portfolios of PBs covered by credit risk mitigation arrangements;
- Banking identified two medium risks related to the absence of a profitability measurement tool for TFP transactions, and delays training PBs.

EBRD – EVD Evaluation of Projects Supporting Regional Integration 2020

- EBRD has supported regional physical integration almost exclusively in the transport sector;
- Almost all EBRD's private sector participation objectives set in the reviewed projects failed;

- Apart from EBRD, almost all MDBs have a Board-approved strategy defining their support for regional integration with objectives against which to assess operations; and
- EBRD management rejected the EVD recommendation for an integration strategy as they argued these issues could be captured through country and sector strategies.

3. Evaluation of Trade Facilitation Programme

The TFP evaluation falls under the following headings: (i) Trade in COOs; (ii) EBRD's Approach to Trade Facilitation; (iii) TFP Structure and Operations; (iv) TFP Portfolio; (v) and TFP Performance.

3.1 Trade in COOs

Key Facts and Findings

- Levels of integration of COOs, apart from Turkey, were in line with the rest of the World, but started to decline in regions such as CAS and SEMED following the GFC
- There is a range of factors constraining growth – weak demand, poor logistics, low FDI
- Value addition in GVCs is declining, and biased towards imports
- Growth in services has stagnated and manufacturing of goods such as transport equipment and chemicals has been the primary source of GVC integration
- Significant opportunities for COOs to capitalise on EU free trade agreements, but there is a need to strengthen business climate, upgrade logistics and skills, and improve access to finance

Global exports and imports have averaged about 45% of GDP since 2000. This result indicates that apart from Turkey, the level of integration of COOs were broadly in line with the rest of the World until the GFC and then started to decline in most COOs. These declines in trade volumes have been mirrored by falling levels of FDI **(See Annex 1).** As noted previously, traditional trade statistics of exports and imports do not capture the value added from intermediate operations, and they imply the level of integration and benefits from trade are greater in COOs than is actually the case**.**

EBRD prepared a study in 2019 of GVCs in EBRD's COOs that looked at changes in TiVA. The study found COOs are moderately integrated, but value addition has been declining over time, and they source more foreign inputs from third countries than they sell to third countries.[16] Location in the form of proximity to EU is important. CEB has the highest level of integration, with 74% of all exports sourced, or sold in GVCs. Integration is the lowest in CAS (50%), followed by the Eastern Europe and the Caucuses (EEC) (53%) in 2017. In relative terms, growth in GVC participation has been positive in Turkey (TKY) and South East Europe (SEE). Other regions such as SEMED, CAS and the EEC had minor increases in the GVC Index in the last two decades. The speed of GVC integration in COOs has slowed down and partly declined since the GFC, particularly in EEC and CAS.

Ideally, countries' trade strategies should try to strengthen local industries participation in GVCs by increasing the amount of domestic value added in products. This result implies that countries want high levels of both imports and exports. EBRD research showed that COOs with strong growth in both domestic and foreign value added, had on average higher GDP per capita growth rates between 1985 and 2018, confirming a positive relationship between growth and GVC participation. Manufacturing and services each account for about 50% of domestic value added of total exports in COOs. Growth in services has stagnated since 2005, and manufacturing of goods such as transport equipment and chemicals has been the primary source of GVC integration.

As part of the GVC analysis, EBRD prepared a case study of the SEMED region.[17] The study identified significant opportunities for COOs to capitalise on free trade agreements with the EU and make greater use of their comparative advantages. There was potential to scale up exports in textiles, horticulture, chemicals and other manufactured products. Diversification created opportunities for both growth, and enhanced

resilience, but it required a range of reforms to realise this potential. There was a need to strengthen the business environment, improve logistics, upgrade skills, and improve access to finance.

3.2 EBRD's Approach to Trade Facilitation

Key Facts and Findings

- Trade facilitation underpins EBRD's mandate, corporate, country, sector and thematic strategies;
- TFP provides risk mitigation and liquidity for cross border trades, and strengthens PBs;
- Concepts of TI have changed since EBRD was established, and they were completely overhauled in 2016 following a shift from TI based on competition to TI based on market development reflecting six qualities, including integration and resilience
- Corporate strategies do not provide much detail on the use of instruments such as TFP
- Despite reforms since 2016, there is no clear link between EBRD TI outcomes and outputs in country assessments
- The FSS is the main sector strategy that discusses TFP, as this instrument is exclusively offered to FIs; other strategies for sectors such as Agriculture mention the possibility of offering trade finance in general terms, independent of the TFP, but it is not occurring in practice
- The green economy transition (GET) thematic strategy set a target of greater than 40% ABI in 2016, increasing to 50% in 2020, which has meant GET financing has become an important element of TFP's operations since 2016
- In 2020 GET 2.1 introduced the concept of alignment with Paris Agreement undertakings, which implies the cessation of EBRD investments in fossil fuels and other high emissions sectors.

3.2.1 Overview

Trade facilitation underpins EBRD's original mandate and it features in its corporate, country, sector, and thematic strategies. While the emphasis has changed over the evaluation period (2010-2019), the primary TFP objectives were embodied in a results framework approved in 2012 that targeted:

- Fostering regional trade through risk mitigation;
- Providing liquidity to support trade; and
- Strengthening PBs engaged in the TFP in COOs.

In 2016, the TFP was aligned with the FSS and the transition qualities of integration and resilience. TI has been pursued through the provision of standby LCs, revolving credit facilities, and factoring services supported by technical cooperation (TC) grants to mitigate EBRD risk and develop capacity of PBs.

3.2.2 Transition Impact

Trade facilitation is at the heart of the TI concept defined in EBRD's founding agreement and formalised in 1997. While international trade is flagged as a priority, the way EBRD defines and measures TI and incentivises staff to achieve priorities has changed quite markedly, particularly since 2016.

From 1989-2015 TI could be achieved in three broad areas focused on the creation of competitive markets: (i) The structure and extent of markets; (ii) The institutions and policies that support markets; and (iii) Market-based behaviour patterns, skills and innovation. During this period EBRD assessed progress in transition through a set of six transition indicators such as Trade and Foreign Exchange System. This indicator measured levels of controls on imports and exports and convertibility of currency.

In 2016, the TI concept was revised as experience had shown a well-functioning market economy should be more than just competitive. A market should also be inclusive, well governed, environmentally

friendly, integrated and resilient. These six qualities now provide the basis for measuring TI, supported by a compendium of indicators.

Underpinning this new definition there was an acknowledgement transition is not only about building markets by relying on demonstration effects of projects, but is also about developing efficient state institutions to ensure markets operate properly. This revised view of TI meant EBRD has strengthened its policy dialogue and government capacity building activities to develop markets that complement its investments.

Progress in each of the TI qualities at the country level is now measured by a set of composite indices (referred to as "assessments of transition qualities" or "ATQs"). These ATQs combine information from a large number of sub-indicators in a consistent manner. The resulting ATQ scores measure each economy's performance against comparator advanced economies and other economies in the EBRD regions. The quality "integration" refers to the reliance of competitive markets on internal-and cross border integration. "Resilience" refers to economies, financial systems, and energy security. These ATQs are very narrowly defined, and do not capture measures such as TiVA.

Table 2: Components of EBRD's ATQs Relevant to TFP

Quality	Components	Sub-Components
Integrated	Trade (external dimension)	Trade
		FDI
		BoP openness
	Infrastructure (internal dimension)	Cross-border infrastructure
		Domestic infrastructure quality
		Energy
		ICT
Resilient	Financial stability	Health and soundness of the banking sector
		Availability of alternative financing sources

Source: Assessment of Transition Qualities, Board Information Session, 28 April 2017

EBRD defines minimum TI scores in its corporate scorecard that it uses to incentivise staff based on Expected Transition Impact (ETI) and Portfolio Transition Impact (PTI) indicators. ETI and PTI measure expected and actual ex ante contributions of projects to TI, modified by country level ATQs. The corporate scorecard TI targets are cascaded to senior management, departments and individuals. These targets are combined with other indicators related to financial performance, to measure and remunerate staff performance. Project ETIs and PTIs are defined using the transition impact assessment (TIM) methodology, and monitored in the Transition Objectives Measurement System (TOMS).

These reforms reflect an important shift in how TI has been pursued since 2016, but it has not led to improvements in evaluability. There is still no basis for measuring a programme's contribution to ATQs as there is no theory of change, and there are no baselines or targets. As a result, TI measures do not provide sufficient information to enable an ex post analysis of achievements. The inability to compare ex ante targets and ex post results substantially reduces opportunities to learn and improve future performance of TI initiatives.

3.2.3 Corporate Strategy

The Bank's corporate strategy documents endorse concepts such as investment, growth in trade, integration, and resilience, but in general do not provide details on how instruments such as TFP

attain these goals. They provide broad statements of corporate focus such as responding to GFC, re-energising transition, climate change, and most recently, digitalisation, and equality.

Similar to TI, the structure of corporate strategies changed fundamentally from 2016 onwards. Prior to 2016, five yearly Capital Resources Reviews (CRRs) defined the corporate strategy and targets focused on Annual Bank Investment (ABI). The CRRs for 2006-2010 and 2011-2015 prioritised restructuring banks following the GFC, and scaling up energy investment to increase security and meet climate change goals.

In 2015 EBRD approved the Strategic Capital Framework (SCF) for the period 2016-2020. The SCF replaced CRRs, supported by rolling three year Strategy Implementation Plans (SIPs) that define resource allocations approved by the Board of Directors. The SCF for the period 2021-2025 prioritises policy engagement, donor resources and mobilisation to achieve objectives.

Minimum quantitative targets for TI and lending underpin these broad areas of targeted activity. SCFs specify control parameters in the corporate scorecard that set minimum levels for ETI and PTI scores, and direct financing with indicators such as minimum ABI targets, financial sustainability (minimum return on capital) and efficiency (maximum cost to income). ABI objectives, subject to minimum TI scores are the primary metrics for staff at the project level, while the other targets act as constraints at the corporate level.

3.2.4 Country Strategies

EBRD uses country strategies to align strategic objectives across the Bank and define areas of possible operations, but they do not include operational targets or expected resource allocations to programs such as TFP. Prior to 2016, country strategies identified opportunities to develop competitive markets, mainly at the project level. There was little scope for EBRD to sequence or coordinate outputs across sector departments or regions, as there was limited policy dialogue, and project outputs were determined by private sector investment priorities.

Following the new definition of TIs in 2016, the focus at the country level shifted towards identifying areas of policy dialogue and investment programmes, focussing on portfolios, rather than projects. In 2014, EBRD introduced country strategy result frameworks (CSRFs) that were expected to link objectives in the SCF and country level programmes. The investment programmes reflect the findings of country diagnostics, and discussions on priorities between Governments and EBRD. The diagnostics identify what needs to change, what can be changed, and EBRD priorities, typically consisting of 1 or 2 TQs.

There is no clear link between ATQs, CSRFs, or project indicators in country assessments or linkages to regional initiatives or programmes such as the TFP.[18]

3.2.5 Sector Strategies

S**ector strategies define strategic themes, and ABI baselines used to measure departmental and staff performance**. These documents look at issues of importance such as opportunities for renewable energy investment in the energy sector, and transport programmes in regions such as the Western Balkans. Most of the sector strategies acknowledge the importance of value chains and the need for integration of trade, but there is little detail on how they are developed, or how initiatives will be coordinated across regions, countries, sectors, or departments within EBRD. As FI Department administers TFP, and it is only offered to banks, the FSS is the most important sector document shaping TFP operations.

- Finance

FSSs were in place for 2011-2015 and 2016-2020. The FSS for 2011-2015 focussed on dealing with the legacy of the GFC and the development of sustainable financing of the real economy in COOs. Support for the resumption of trade in the region through an active TFP was one of five strategic priorities.

During 2011-2015 Western European banks scaled back operations in COOs, and the rate of reforms slowed. Demand for long-term finance declined, leading to excess liquidity and shrinking bank margins. The FSS noted that TFP was an important source of trade finance in many COOs, and it enabled EBRD to remain engaged in difficult countries such as Ukraine, and start banking relationships in SEMED. Initially EBRD had anticipated the increased focus on trade finance would be temporary. With the subsequent introduction of new bank capital regulations, the growing risk aversion of commercial banks, and the increased cost of compliance working with banks in smaller, less developed markets, the TFP had become an increasingly important instrument for FI.

The FSS for 2016-2020 focused on how EBRD would support COOs' economic recovery from the GFC, based on three strategic objectives: (i) support resilient and efficient banks; (ii) improve financial sector effectiveness and integration; and (iii) enhance financial intermediation. Within this framework, EBRD targeted bank restructuring, increased use of LCY, developing non-bank financial institutions and introducing new products to support initiatives such as GET, Small Business Initiative, and gender equality.

The FSS indicated TFP would target ETC, SEMED and smaller regional players in more developed markets such as Greece and Cyprus. EBRD would explore opportunities to deepen financial intermediation by introducing new products (e.g. Green TFP). Grant funding would play an important role training PBs in the use of trade finance. The FSS identified opportunities for policy dialogue in areas such as factoring, supply chain finance, and mobile payments.

In practice, these FSS initiatives have not been a priority. Implementation has been complicated by TFP's business model where Board approves the size of the facility and transactions are market driven. Further difficulties arise, as there is no theoretical link between sector objectives and TFP outputs.

- Other Sectors

EBRD is active in sectors such as transport, energy, ICT, agriculture, mining and manufacturing, which all have significant cross border trade. The infrastructure sector departments do not target cross border trade or offer short-term trade finance type instruments such as TFP. The Agriculture sector department was an exception and the current Agriculture Sector Strategy (ASS) for 2019-2023 highlights the importance of value chain integration and internationalisation. The ASS targets increased access to finance for capex investments, supporting working capital needs, and providing tailored finance including LCY. The ASS flagged an intention to support pre-financing and collateralisation options for agribusiness products, provide risk management, finance trade facilitation products, and develop risk-sharing facilities to reach smaller actors involved in primary agriculture.

These working capital products would not fall under the TFP, which is only offered to banks. Working capital is difficult to identify, as ABI does not differentiate between short-term finance for liquidity and long-term finance for investment. In practice, discussions with agriculture banking staff indicated they have not developed short-term working capital products, as this part of the market is very competitive due to being low risk and can be funded by banks' deposits and short-term capital market instruments. As a result, there was a preference to offer long-term finance for investment, as it cannot be replicated by commercial banks.

3.2.6 Thematic Strategies

GET is by far the most important thematic strategy at EBRD. During SCF 2016-2020 the main target was the allocation of 40% of ABI to GET projects by 2020. Specific areas include energy efficiency, renewable energy, green banking, green cities, climate resilience and green bonds. In the SCF 2021-25, the target increased to greater than 50% of ABI by 2025, and greenhouse gas emissions would reduce by 25 - 40 million tonnes. The magnitude of this target, and the growing size of TFP as a proportion of Bank operations, has meant GET financing has become an important element of TFP operations since 2016. GET 2.1 introduced the concept of alignment with Paris Agreement undertakings in 2020, which implies the cessation of investments in fossil fuels and other high emissions sectors.

3.3 TFP Structure and Operations

Key Facts and Findings

- TFP was established in the 1990s as series of individual projects and then as a €100 million framework in 1999 following the Russian financial crisis
- TFP provides risk mitigation and liquidity products to local banks that pass them onto SMEs
- TFP has developed a large PB network of IBs and CBs to support these operations
- TFP outputs consist of guarantees, revolving credit facilities, factoring services, and technical training and advisory services for PBs
- TFP is guided by a FSS strategic target for average annual turnover, and operational targets for TI based on numbers of PBs, TFP transactions and PB staff trained
- A small special purpose unit in FI Department manages the PB Network under framework agreements defining eligible exporters, importers and types of transactions
- Transactions need to comply with EBRD's Environmental Exclusion List and they are checked by TFP Unit and reviewed by Environmental Sustainability Department
- EPG reviews all new PBs and annual performance of the TFP in the light of the TFP benchmarks
- TFP has responsibility for pricing and agrees parameters with Risk Management
- Contrasting to other debt products, TFP reports to OpsCom ex post estimates of return on required capital, which is normally used as a bank wide metric

3.3.1 Overview

EBRD established a series of trade finance facilities in the early 1990s to help support the development of the regional trading system in the Former Soviet Union (FSU). In 1999, in response to the Russian Financial Crisis, EBRD developed a more permanent €100 million framework with delegated authorities from the Board that are subject to regular reviews. The main changes to earlier facilities was the elimination of the requirement for PBs to pay commitment fees, and mandatory risk sharing by CBs.

There was strong demand for trade finance following the breakup of the FSU in 1990, as local commercial banks had difficulty accessing hard currency payment systems. Banks could not issue or accept LCs to guarantee cross border payments, and it meant local importers had to make 100% cash pre-payments to exporters. These payments created problems for importers due to high levels of risk not receiving goods following payment and lack of liquidity in local markets to finance payments.

The TFP addressed these issues by providing PBs in COOs with risk mitigation support. This support improved the creditworthiness of trade payment obligations, which in turn helped importers to access necessary liquidity. Local IBs provide LCs on behalf of importers to international CBs, which accept them on behalf of the exporters. In addition to guaranteed trade finance transactions, TFP provides liquidity in the form of revolving credit facilities to PBs and factoring companies (that trade in export receivables) in COOs.

The TFP network is open to IBs registered in all EBRD's COOs, including banks with majority foreign ownership and subsidiaries of foreign banks. Applications from local IBs to participate in the TFP are reviewed by EBRD on a case-by-case basis after detailed due diligence. Similarly, all international commercial banks with an established record of trade finance operations with banks in the EBRD region and a satisfactory credit rating are eligible to join the TFP as CBs. Selected banks within COOs can act as CBs if they have experience in trade finance and a satisfactory credit rating.

3.3.2 TFP Outputs

TFP provides the following EBRD outputs to PBs, denominated in either Foreign Currency (FCY) or Local Currency (LCY):

(i) Guarantees (standby LCs) to international CBs;

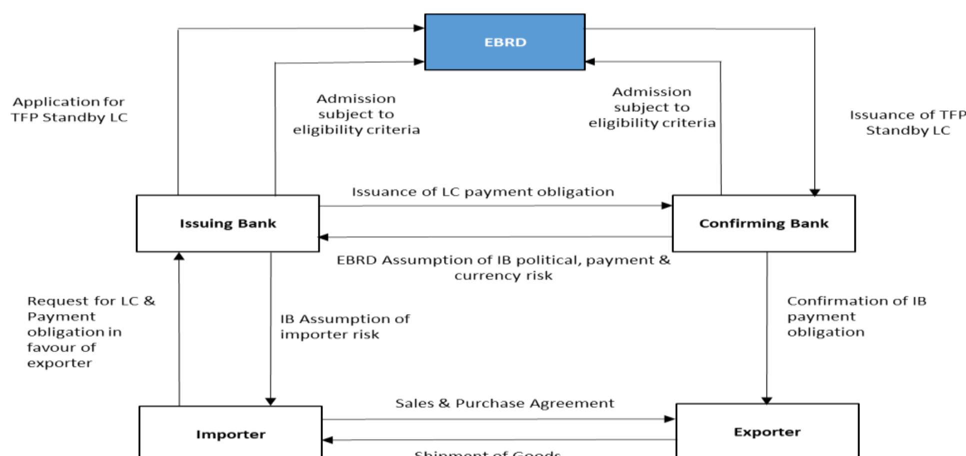
(ii) Revolving Credit Agreements (RCAs) to meet liquidity needs of import and export firms in COOs;

(iii) Factoring services; and

(iv) Training and technical consulting to IBs in COOs.

The first TFP output consists of unconditional guarantees to CBs for up to 100% of the value of any genuine trade transaction to, from and between COOs. Under the TFP, EBRD assumes political and commercial risk of local IBs issuing the LCs to CBs by issuing a counter guarantee on the LC (**Figure 3**). EBRD's TFP guarantees cover a wide range of goods including consumer items, construction contracts, leases; and services such as inter bank credit card payment obligations. In most cases, EBRD assumes 100% of IB risk, and approves transactions and fee levels on a case-by-case basis, but it does not take any exposure to local importers. Guarantees can have a tenor of up to five years.

Figure 3: Steps in a Guaranteed TFP Transaction

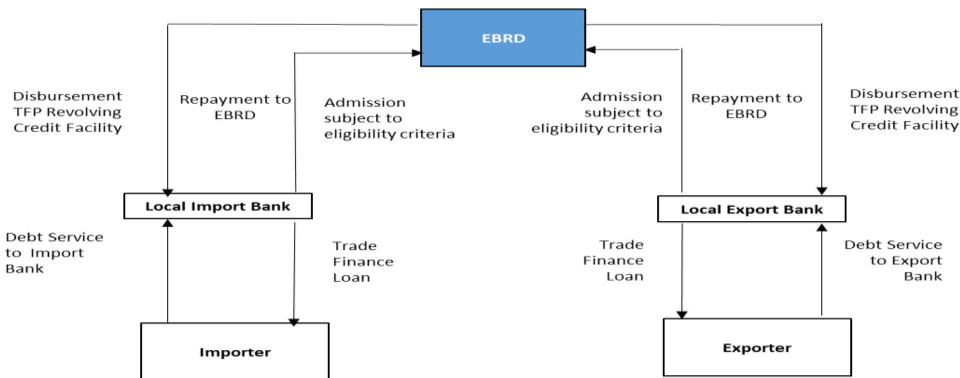


Source: EVD

The second TFP output consists of uncommitted RCAs, which are short-term advances to banks in EBRD's COOs. These funds can be used for on-lending to local exporters, importers and distributors (**Figure 4**). Financing can be pre or post shipment, structured and financed in a similar manner to other types of credit lines offered by EBRD. Pre-export financing allows the exporter to finance the production, storage and transport of goods and services exported. Post-import financing allows the importer to finance the purchase price, transport, storage and local distribution of goods and services imported into the COOs. Similar to guarantees, EBRD limits its exposure to PBs rather than underlying importers and exporters and

approves transactions and fee levels on a case-by-case basis. Cash advances have a maximum tenor of three years. PBs are required to submit documentary evidence to EBRD confirming use of funds.

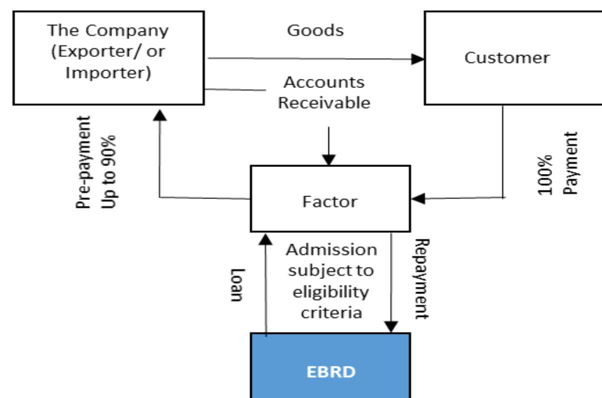
Figure 4: Steps in Revolving Credit Transactions



Source: EVD

The third output is factoring services (Figure 5). Factoring is a financial service where factoring companies collect and finance domestic and international sales of receivables of producers, wholesale traders and retail traders. Factoring companies buy receivables with or without recourse to the sellers, secured by an assignment of the receivables. Most of the receivables are short-term with tenors of up to 180 days. EBRD only takes the risk of the factoring company and not the underlying receivables.

Figure 5: Steps in Factoring Transaction



Source: EVD

The fourth TFP output consists of policy advice to develop legal frameworks in areas such as factoring services, and training to develop institutional capacity of local IBs, using TC grants. Consulting services cover activities such as developing or redesigning trade finance operations of PBs by preparing commercial and risk management policies, streamlining processes, and upgrading systems. In 2010, EBRD collaborated with ICC and launched a Trade Finance e-Learning Programme, which offers IBs further education in trade finance.

3.3.3 TFP Objectives and Performance Management Framework

TFP does not have a detailed strategy or business plan, and the main document that sets out its performance framework is a series of operational TI targets. These targets were defined in a Board facility approval document in 2000, and have been modified over time. In 2016, TFP was included in the

FSS, and TFP financing volumes was re-established as a performance indicator. As a result, the TFP performance framework consists of two components: (i) TFP Operational TI targets **(see Annex 5)**, and (ii) a FSS Strategic performance indicator.

- **TFP Operational TI Targets**

The TFP operational targets measure TIs that contribute to ETI and PTI targets in the corporate scorecard, and form part of the departmental and personal scorecards. The minimum ETI/PTI score from 2013-2019 was 60, and frameworks need to exceed this limit to achieve EBRD corporate scorecard TI goals. As these targets are ex ante, they act as screening criteria rather than measures of actual performance and this means success arises at approval of rating (ETI), subject to implementation (PTI).

From 2000 to 2011 the TFP framework supported the following TI objectives:

(i) Foster trade, both intra-regional and inter-regional;

(ii) Provide liquidity to the trade finance system in foreign and local currency;

(iii) Assist PBs in creating track records with international banks;

(iv) Strengthen the trade finance capabilities of local banks; and

(v) Support the development of factoring services provided by banks and factoring companies.

In 2011, the Audit Committee approved the EVD recommendation for management to review and update the TFP strategy. The review was prepared in response to the EVD finding that the TFP still did not have a clear strategy and results framework that defined outcomes and linked them to outputs, despite it being a recommendation of the first evaluation in 2003.

The management review noted TFP did not fit within the standard project finance structure used by other EBRD financing outputs and it offered several important benefits for EBRD operations independent of TI. TFP delivers high volumes of small short-term transactions designed to support trade rather than long-term investment. TFP serves a dual purpose of building initial relationships with local banks and complementing EBRD's SME credit lines. More broadly, TFP complements other EBRD operations as it is stable, apart from periods of high growth (as in 2006-2007) when it could rapidly shrink, or low growth (as in 2008-2009) when it could rapidly grow.

In the light of these considerations, the 2011 management review decided to focus on PB capacity. As a result, the new TFP results framework broke the link between TFP financial volumes (the output) and trade volumes in COOs (the outcome). The following new TFP objectives were proposed:

(i) Assist PBs to establish and maintain relationships with international banks;

(ii) Provide continuity of support for trade transactions to contribute to sustainability of trade flows;

(iii) Strengthen the trade finance capabilities of PBs; and

(iv) Focus on maximising impact on priority sectors for the Bank.

Under this new framework, the focus of reporting and implied outputs was the number of transactions and PBs. In 2013 management requested the Board to approve an extension of the TFP to 2016, maintain the limit at €1.5 billion, and update the TI benchmarks. The request noted the objective of the TFP is to build and sustain access to trade finance for a wide variety of participants, rather than promote trade. Trade finance was presented as an important first step for international banks wishing to do business with banks in COOs. There was an expectation that over time CB demand for EBRD cover would decline, and they would start offering clean trade finance lines on their own account.

The TFP focus in PB capacity was confirmed and the programme TI benchmarks would no longer prioritise business volumes. Under this new framework there were no clear outcomes, and outputs were based on an implicit composite indicator of PB capacity. Twenty six new indicators were defined to measure number of transactions in COOs with trade finance market gaps[19], and numbers of PB staff attending EBRD training sessions. Economics, Policy and Governance (EPG) would start to conduct TIMS reviews and rate TI based on expected PB capacity at initial approval stage, and annually review the extent the TFP achieved TI operational targets.

In May 2016 the Board approved an extension of the TFP to 2021, at which point it would shift to a five year cycle aligned with the FI strategy. TFP would maintain the previous terms and the programme limit of €1.5 billion. The TI benchmarks were updated, and there would be a shift from a semi-annual to annual reporting basis for the Board, as part of the FI Report**.** The FSS defined the role of TFP as delivering the strategic themes "Improving financial sector effectiveness and integration" and "Enhancing financial intermediation". The TFP would be aligned with the FSS objectives of integration and resilience and focus on ETCs, SEMED and smaller PBs in line with the objectives approved in 2011. The financial volume indicator for TFP would be included in the annual reports on the FSS rather than the TFP operations. TFP annual reports would form an appendix to FI Annual reports and present details on the indicators in the Operational Targets Framework, primarily focussing on number of transactions.

The TFP operational objectives approved in 2011, largely remained intact in the 2016 document, apart from the introduction of references to market gaps and development of factor services. Management recommended the TI indicators be revised as the PB market had matured and the number of new entrants had declined, making the number of PBs indicator redundant. State owned banks were expected to continue to remain dominant in some markets so the level of this indicator was revised downwards. Targets were retained for number of transactions in SEMED countries, and clean transactions with commercial banks. Targets for percentage of risk shared by CBs were removed and new indicators introduced such as number Green TFP transactions, and PB staff attending KYC and SWIFT courses.

In 2019, the Board approved a request to increase the TFP limit from €1.5 billion to €2.0 billion, and extend the tenor on guarantees for traded GET eligible goods. The Board approval document noted GET was becoming an increasingly important element of the TFP. The increase in the TFP limit and tenors for guarantee instruments was expected to continue to contribute to the new Resilient and Integrated transition qualities by enabling PBs to support trade in GET compliant goods.

- **FSS Strategic Financial Indicator**

The FSS TFP performance indicator of TFP volume was introduced in 2016 and it is set relative to a baseline of average annual turnover of TFP operations (2011- H1 2015) of €1.0 billion pa. The TFP turnover indicator contributes to other FSS indicators such as GET volume, and it is one of the main indicators used to measure FI and TFP banking staff performance.

- **Conclusions on Indicators**

Overall, despite significant changes in markets, definitions of TIs, several detailed reviews, and Board approved extensions, the TFP objectives and the results framework have barely changed over the evaluation period. The only substantive change was the prioritisation in 2011 of number of transactions as the main metric used for reporting performance. This action was a backward step, as this indicator provides no information on TI or financial performance. This shift was contrary to recommendations by EVD in its two previous evaluations, and the Audit Committee in 2011.

3.3.4 TFP Organisation Structure and Operations

- **The Board**

The Board approved the TFP framework in 1999 setting out the scope and content of the programme. The framework defines the amount, and periods between Board approvals for extension, the eligibility criteria for transactions, and authorities delegated to management. The approval process for PBs' exposure limits and individual transactions was agreed in the 2011 TFP Board Paper and Strategic Review (BDS11-138, as amended), and it defines the key terms and conditions.

The Board has delegated authority to management to approve PB limits and all TFP transactions within the facility limit in 2019 of €2.0 billion. Cash Advances are limited to a maximum of 50% of the overall Programme limit for the TFP Facility. The Board maintains control by retaining authority to authorise cash transactions over certain limits that have increased over time. In 2019 the cash limit was set at €25 million on a no-objection basis; and OpsCom would approve any guarantee over €25 million. All cash and guarantee transactions beyond the threshold are reported to the Board on an annual basis.

In 2019, the Board agreed to increase maximum tenors of TFP guarantees for exports from COOs and imports of GET technologies into COOs from 3 years to 5 years. Total volume of outstanding transactions with tenors of more than 3 years would be limited to 15% of the TFP Programme limit (or €300 million of the overall Programme limit of €2 billion).

- **TFP Network**

The TFP network currently consists of: (i) more than 100 IBs in 30 countries; (ii)over 800 CBs eligible for guarantees; and (iii) more than 80 local banks eligible to access RCAs and factoring services. The PBs interact with TFP under framework agreements. Banks that wish to participate in the TFP network are subject to EBRD's due diligence procedure including a review of Integrity, KYC, and AML systems. The main criteria for selection are: (i) an appropriate level of financial standing; (ii) good corporate governance; (iii) clear shareholder structure; and (iv) willingness to establish or already established international trade finance business. Once banks are accredited, they can apply for EBRD support.

The TFP is not a party to underlying trade documents, and it relies on the local IBs to direct trade finance transactions and retain documents. PBs can offer EBRD TFP to clients and transactions that meet the following criteria:

- Eligible Exporters or Importers, who are engaged in Cross-Border Trade, including distributors and lessors of imported goods, and sellers who finance their trade receivables through factoring;
- Eligible Trade Transactions, which involve Cross-Border Trade (including pre-export financing, and post-import financing), not captured by any of the criteria in the TFP environmental exclusion list.[20]

- **TFP Operations**

TFP is part of the FI Business Group (FIBG), and it has the characteristics of a Product Group, as the Head of TFP reports through the Director of FI Operations and Portfolio. In 2009, IAD reported TFP had a team of 10 staff, comprised of seven permanent and three temporary. In 2020 TFP had a dedicated team of 20 staff, comprised of 16 permanent staff, one full time contractor, two short term contractors, and an intern. Staff responsibilities are detailed in **Table 3**:

Table 3: TFP Staff Responsibilities

Position	**Number**	**Responsibilities**
Management (Head of TFP)	1	Overall management of the TFP, strategic development, people management
Associate Directors/Principal Bankers	5	Leading business development in assigned countries, leading the implementation of assigned projects (including TC projects), client relationship management, people management, training of junior staff
Associate Bankers/Analysts	10	Negotiation, checking and processing of guarantees and disbursements, reporting
Senior Officer/Officers	4	Processing of guarantees and disbursements, support with assigned tasks on projects (including TC project)

Source: TFP Team

TFP Co-ordinators in FI are located in all Resident Offices to provide local support to PBs and traders. TFP uses consultants for training and advisory work funded with grants.

- **Environmental and Social Requirements**

TFP operates under Environmental and Social Policy (ESP) Procedures for Trade Finance, which are a subset of ESP Procedures for EBRD Intermediated Financing through Local Banks. This policy relies on PBs to identify environmental and social risks associated with their activities, screen out transactions on the Environmental Exclusion List, and identify transactions that might be regarded as high risk and require further review by EBRD prior to disbursements. This list does not exclude products such as oil and gas development and products from crude oil refineries and petrochemical facilities. This arrangement is likely to change following the recent approval of GET 2.1 and the new approach to alignment with the Paris Agreement. Environmental due diligence is reviewed by Environment and Sustainability Department (ESD) and it checks compliance ex-post for all transactions guaranteed or financed under the TFP above €5 million, and reviews samples of all other transactions. The TFP Team has developed an environmental training programme for PBs.

- **Transition Impact**

EPG assesses TI at the framework level, rather than transactions. EPG rates TI derived from PBs' capacity at initial approval stage, and annually reviews the extent the TFP achieved TI operational targets. As these operational targets are based on capabilities of PBs, there is no linkage with TI indicators such as market capacity or the new transition qualities of resilience and integration introduced in 2016. TIMS ratings for TFP are scheduled for review in 2021 and will be aligned with new TQs.

- **Financial Sustainability**

Due to the high volume of TFP Transactions, OpsCom delegated decisions on pricing and tenor to TFP in 2013, and it retains oversight by reviewing management reports on pricing and profitability. Originally, reports were prepared on a semi-annual basis and from 2017 on an annual basis.

The main focus of pricing is margins as TFP transactions do not attract any of the Bank's standard fees (e.g. appraisal fees, break-up fees) except for default interest and fees/expenses arising from legal proceedings. As TFP instruments are not formally collateralised with SME clients' assets, commercial risk is determined by the creditworthiness of the IBs/ Borrowers/Factors. The pricing of TFP facilities is meant to reflect this credit risk and be set in line with internal price ranges agreed with Risk Management and in accordance with market prices. The TFP team prepares annual reviews for each IB and presents a pricing range for various tenors to Risk Management for review when there is a change in pricing. Risk Management noted in an OPsCom report in 2020 it had difficulty verifying market prices due to the bilateral nature of TFP transactions and consequent lack of visibility and comparability.

A special purpose management information system (MIS) - Summit – monitors and controls TFP transactions, and the portfolio as a whole. In comparison to other lending operations, the Investment Profitability Model (IPM) is not used for setting minimum profitability targets due to concerns about the accuracy of the methodology. An ex ante project profitability model was developed by TFP in 2018 to provide internal guidance on pricing, margins and estimates of Return on Required Capital (RORC).. The TFP MIS provides reports on ex post margins and profitability of the TFP before bank overheads. TFP staff then calculates estimates of RORC based on defined assumptions, which are presented to OpsCom.

IAD noted in 2018, TFP scorecard includes an ABI target for new TFP transactions, but unlike other teams (including those within the FI group) the scorecard does not include any financial profitability targets. This arrangement could lead to TFP business volume at the expense of profitability.

3.4 TFP Portfolio

Key Facts and Findings

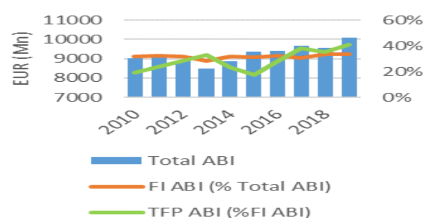
- TFP's ABI has been growing at 10% pa, and it accounted for 45% of FI's ABI in 2019
- TFP funding limit is based on turnover and it was increased from €1.5 billion to €2.0 billion in 2019
- In 2019 TFP supported 2,017 trade finance transactions for turnover of €2.5 billion
- TFP volumes in CAS are low and ceased in Russia from 2015. Volumes in EEC have gradually been replaced by new business in SEMED, Cyprus and Greece
- About 40% of TFP turnover is in high emission sectors such as oil and gas and metallurgy products, followed by food (30%)
- About 90% of TFP turnover is from imports, and about 100% is denominated in USD or EUR
- TFP transfers about 15% of its portfolio risk to third parties through URPs
- In 2019, the total value of TC facilities outstanding for TFP was €11.87 million
- There is a TC Framework from EBRD's Special Shareholders Fund (SSF) for €7.75 million approved in 2018 that expires in 2023

3.4.1 TFP Investments

The TFP has steadily grown in value terms, and as a proportion of EBRD operations, over the evaluation period. TFP increased from 6% of ABI in 2010 to 14% by 2019, growing at 10% pa. Due to this rapid change, TFP accounted for 45% of FI's ABI by 2019 **(Figure 6).**

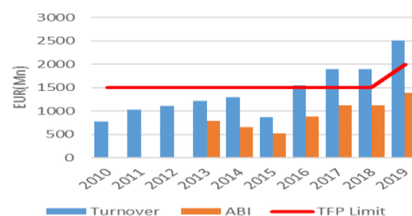
While TFP contributes to EBRD's ABI, the clearest measure of its business activity is annual turnover, and this parameter is used to set funding limits. The TFP limit for turnover approved in March 2009 was €1.5 billion, and in 2019 it increased to €2.0 billion. Due to the short tenor of transactions (average: 8 months), many transactions do not feature in ABI or year-end portfolio data. In 2019 TFP supported 2,017 trade finance transactions for turnover of €2.5 billion (**Figure 7**).

Figure 6: ABI Volumes



Source FI Annual Report, 2019

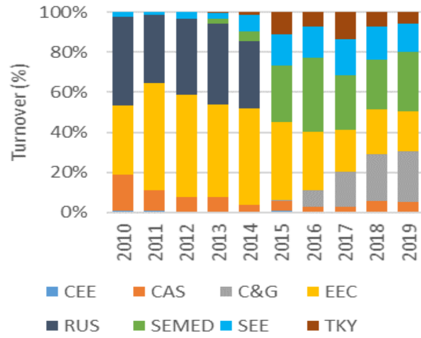
Figure 7: TFP Financial Parameters



Source: TFP Database

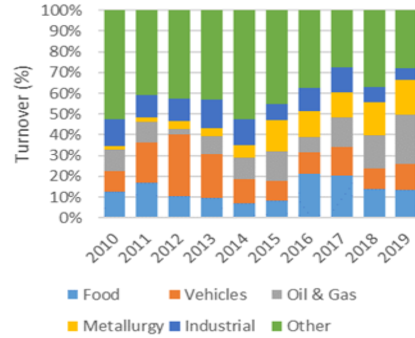
Turnover in CAS has been negligible and TFP volumes in Russia ceased from 2015. Volumes subsequently declined in EEC, replaced with business in SEMED, Cyprus and Greece (**Figure 8**). In 2019 about 40% of TFP trade was in high emission sectors such as oil and gas and metallurgy products, followed by food (30%) (**Figure 9**).

Figure 8: Turnover (%) by Region



Source: TFP Database

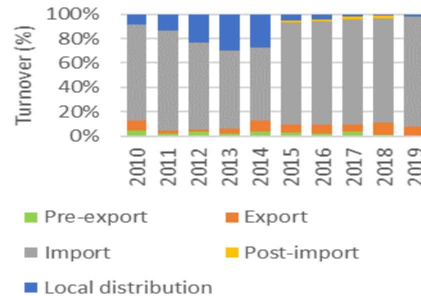
Figure 9: Turnover (%) by Sector



Source: TFP Database

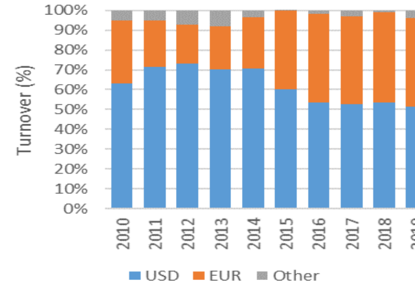
About 90% of TFP turnover comes from imports (Figure 10), and almost 100% of trade is denominated in either USD or EUR (**Figure 11**).

Figure 10: Turnover (%) by Purpose



Source: TFP Database

Figure 11: Turnover (%) by Currency



Source: TFP Database

3.4.2 *TFP Financing*

TFP is financed from EBRD's own capital and it is supported by a TFP portfolio risk sharing operation managed by the TFP team. TFP can increase mobilisation of third party private finance and reduce portfolio risk by using one of the following risk sharing structures:

(i) A/B participations by commercial banks;

(ii) unfunded risk participations (URPs), which can be in the form of:

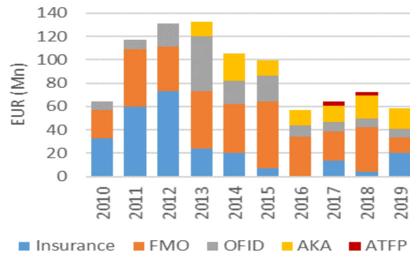
- risk participations by insurance companies and commercial banks, or
- risk sharing arrangements with foreign CBs; and

(iii) TFP can share risk with CBs by providing less than 100% cover.

The last TFP B loans were issued in 2008, but the other mobilisation instruments are in use. EBRD has signed URPs with insurance companies and several other public sector banks such as Arab Trade Financing Program (ATFP), FMO Netherlands, and OPEC Fund for International Development (OFID).

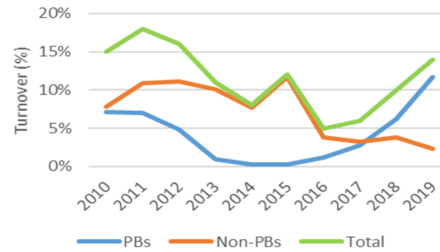
Both insurance and banking URP volumes have been declining over time (**Figure 12**), but there has been a recent revival in the volume of risk sharing with CBs (**Figure 13**).

Figure 12: Risk Transfer (EUR Mn)



Source: TFP Database

Figure 13: Risk Transfer % TFP Turnover



Source: TFP Database

- Technical Cooperation

EBRD has established technical cooperation (TC) arrangements for supporting TFP with grants. These grants primarily support training and technical consulting for IBs, plus a small amount for first loss risk mitigation. The TFP annual report provides details on active TC facilities, but it is difficult to identify annual grant cash flows as there are no details reported on actual drawdowns from approved facilities. In 2019, the total value of TC facilities outstanding for TFP was €11.87 million.

SSF was by far the largest source of grant funds. A five year TFP TC Framework for €7.75 million was approved in 2016, and there are several smaller SSF facilities that have subsequently been approved. SSF funds are often co-mingled with grants from donors such as Deep and Comprehensive Free Trade Area (DCFTA) between Georgia and the EU, West Bank and Gaza (WBG) Multi-Donor Account (MDA), and EU Neighbourhood Investment Facility (NIF).

3.5 TFP Performance

Key Facts and Findings

- TFP has comfortably exceeded the FSS baseline for TFP turnover of €1.0 billion pa, achieving total turnover of €2.5 billion in 2019
- TFP has not met about 50% of operational market expansion targets in recent years, but it has easily achieved operational targets for transfer of skills to PBs based on number of training events
- It is not clear if TFP's primary TQ objective is integration or resilience, and operational TI indicators are not aligned with either objective
- A shift in focus from trade finance volumes to number of PBs and then number of transactions further reduced the level of clarity on what TFP is trying to achieve and how it will be achieved.
- Justifications for additionality are weak, and there is evidence TFP pricing is set at levels below commercial market rates, indicating the risk of crowding out private sector TF is high
- Guarantees have been the main TFP instrument, with turnover increasing by 3.1 X over the evaluation period, whereas factor services have made almost no contribution
- Outcomes are based on an expectation of expansion of TF in underserved markets, intra-regional trade, and SMEs in COOs, via small private sector banks
- There has been a gradual shift away from ETCs to SEMED, Greece and Cyprus
- Most trade does not appear to be directed to SMEs, and little progress has been made on GET
- There is no direct evidence of TFP impacts on trade flows in COOs
- Profitability of TFP is low relative to EBRD benchmarks and declining

3.5.1 *Overview*

In this section TFP performance is evaluated from the perspective of: (i) level of attainment of management's strategic and operational targets, and (ii) formal evaluation criteria to determine the extent it is contributing to EBRD's transition mandate, and its relative benefits and costs.

3.5.2 *Strategic and Operational Targets*

TFP has comfortably exceeded the FSS strategic financial baseline for TFP turnover of €1.0 billion pa, achieving total turnover of €2.5 billion in 2019. The achievement of the operational TIMS targets on market expansion and transfer of skills has been mixed (**Annex 5**). TI scores over the evaluation period were good (>=60), with the exception of 2013 and 2019 (**Table 4**). As noted previously, these scores provide little information on actual performance as projects are not approved if they do not exceed the minimum threshold, and they are based ex ante expectations of performance, modified by investments in PB capacity.

Table 4: TIMS Scores

Year	**2010**	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Score	Good	Good	90	45	60	60	60	60	60	55

Source: TIMS Reports

There have been consistent shortfalls in operational market expansion targets in recent years. In comparison, TFP has easily achieved targets for transfer of skills to PBs by a factor of up to 30X target levels. **Table 5** sets out TFP achievements for the 2018/19 year.

Table 5: TFP Operational Targets (from 2016)

Benchmarks	**Actual 2019**	**Target 2019**	**Success[21]**
Market expansion: assist banks to develop relationships with foreign banks			
Number of Transactions in ETCs, % of all Transactions	27%	>40%	N
Number of transactions in ETCs and other countries with significant TF gaps[1], % of all Transactions	96%	>82%	Y
Percentage of number of transactions with small/regional banks	47%	>75%	N
Average Transaction amount, million €	1.2	<1.0	N
Number of Intra-regional Transactions in % of all Transactions	37%	>26%	Y
PBs in ETCs: TF Volume carried out using unsecured TF limits from commercial banks, % to total TF Volume[2]	delayed	>65%	
PBs in non-ETCs: TF Volume carried out using unsecured TF limits from commercial banks, % to total TF Volume[2]	delayed	>80%	
Number of factoring facilities utilised in each year	5	5	Y
Number of Green TFP transactions, % of all Transactions	14%	>17%	N
Percentage of volume of risk shared by third-party risk participants	14%	>10%	Y
Percentage of number of transactions with state-owned banks	12%	<8%	N
Transfer of skills: strengthen the trade finance capabilities of participating banks			
Number of bankers who have successfully attended trade finance training courses organised under the Programme	530	>250	Y

Number of bankers who have successfully completed e-learning courses and obtained ICC certificates	122	>35	Y
Number of bankers who have attended factoring training courses and obtained certificates from the EBRD or FCI	60	>25	Y
Number of bankers who have successfully completed KYC/compliance training course	305	>10	Y
Number of PBs using SWIFT or similar centralised platforms for KYC due diligence	91	>20	Y

[1] Smaller / regional banks in Russia, Western Balkans, Romania, Bulgaria, and all banks in Greece, Cyprus, SEMED, Kazakhstan, and Ukraine

[2] Sourced from the Annual PB Survey.

Source: FI Annual Report, 2019

In 2019 TFP met four out of 11 market expansion (development of PB relationships) TI operational benchmarks and two indicators were delayed as data from the PB Survey was not available at the time of reporting. Management noted an increase in TFP demand from large PBs in new COOs reduced the percentage of transactions in ETC and with small-regional banks. The number of factoring transactions was above target, but it continues to be a very small part of operations. The number of green transactions and number of transactions with state owned banks were below target.

Management indicated the economic down turn in most ETCs and a lack of risk taking capacity in co-financing partners had a negative impact. The development of third party risk absorption capacity has been an important TFP objective. TFP had a target for percentage of risk shared by CBs of 10% by 2013, but it peaked at 3.2% in 2011, and it was dropped after 2012. The indicators measuring proportion of PBs non-EBRD trade finance have consistently lacked data due to timing of the PB surveys. More generally, the TFP has missed the majority of its market expansion indicators since 2016.

The types of indicators used in the TIMS assessments and the results framework do not address the concerns raised in the two previous EVD evaluations. Indicators such as number of banks in the TFP network, or numbers of staff trained do not map onto outputs such as market capacity, making it difficult to draw conclusions about achievements, benefits and costs. The only indicators with a high level of success relate to training, which are subsidised by EBRD and the EU Neighbourhood Facility. While these products might have had some relevance as a means of developing market capacity in COOs back in the 1990s, it is not clear why it continues to be provided on a subsidised basis. Many of the IBs are now subsidiaries of western banks and internationally recognised courses in trade finance are readily available online from organizations such as ICC and The London Institute of Banking & Finance at low cost.

3.5.3 Evaluation of Contribution to Transition Impact

In this section TFP is evaluated using the criteria of relevance, additionality, effectiveness and efficiency.

a. Relevance

The case for relevance of TFP to meet COO requirements and EBRD objectives is weak. TFP does not directly map onto COO objectives as policy dialogue is not a feature of its operations, but it seems reasonable to assume that promotion of trade is important to COOs. Similarly, an ICC survey in 2020 provided evidence that SMEs in Central and Eastern Europe have difficulty accessing trade finance due to complex application processes and KYC requirements, but availability of finance did not feature as a constraint.

TFP is directly relevant to EBRD's mandate, which requires it to "foster transition … towards open market-oriented economies and the promotion of private and entrepreneurial initiative". Offsetting this result,

the conceptual framework for defining how TFP will improve access to finance and stimulate trade by SMEs in disadvantaged regions such as ETC is almost non-existent.

The board document in 2011 noted the objective of TFP is to build and sustain access to trade finance for a wide variety of participating banks. In the Board approval in 2013 the focus on sustaining, rather than growing trade was reinforced by the statement: “while promoting trade is not in itself the objective of the Programme, building and sustaining *access* to TF for a wide variety of participants is.”

Given the high levels of liquidity and ready availability of TF in COOs, this phrasing suggests EBRD provides permanent TFP capacity for crisis responses, rather than facilitating growth in trade. This view raises a number of issues as it is not clear how this goal maps onto EBRD’s initial TI objective of creating competitive markets, or the current transition qualities of integration and resilience**.**

The concept of sustained/permanent TFP capacity runs contrary to the Board guidance in 2011. The Audit Committee stated there should be transition indicators that allow “EBRD to determine when PBs have reached the stage where they are able to continue trade finance activities without the need for further support from EBRD, allowing EBRD to exit.”

The Management review in 2011 proposed indicators based on number of PBs, transactions and training sessions. These indicators would measure the following sources of TI to ensure the continued relevance of TFP:

- adding and developing new PBs, particularly in less developed markets and regions;
- continued knowledge and capacity building for PBs to be active in the market; and
- providing consistent risk and liquidity support for PBs to assist them build sustainable trade finance businesses where there are gaps in the commercial bank coverage.

The shift in focus from trade finance volumes to number of PBs and transactions, rather than creation of markets for international trade, reduced the level of clarity on what TFP is meant to achieve and how it will be achieved. In 2013, further confusion was introduced when it was noted in the Board extension document “the TFP continues to shift from a programme focused on market expansion and skills transfer to one whose role is to support the continuity and sustainability of TF, through risk support, funding and continued education in the region”. This arrangement meant it was no longer clear what outcomes were being pursued by TFP.

In 2016, the Board document seeking a further extension noted the TFP framework is now an established programme with a limited number of new PBs expected to be added on an annual basis going forward. This statement indicated the main TI indicator was now number of transactions. The shift away from outputs (volumes of TFP) in 2011 to reporting on inputs and activities (number of PBs and then number of transactions), further confused the situation as it was no longer clear where TFP funds were being allocated, or for what purpose. This arrangement meant it was no longer clear what outputs were being pursued by TFP, and it was no longer possible to establish a linkage between outcomes and outputs, or identify the resource cost of TFP to EBRD.

This change in measuring results and reporting to the Board on performance was directly contrary to what the EVD evaluations of TFP recommended in 2003 and then again 2010. Both evaluations recommended the TFP develop a strategy with indicators linked to measurable TI, operational objectives or milestones, which differentiated between guarantees and cash advances, to enable the evaluation of performance based on the following indicative theory of change:

1. Develop a network of IBs and CBs;

2. Develop TF institutional capacity of IBs;
3. Encourage growth in volumes of inter- and intra-regional trade in under-served areas such as ETCs by providing TFP outputs in volume terms;
4. Encourage growth in volume of trade by SME exporters and importers in COOs; and
5. Provide evidence of EBRD demonstration effects that enabled commercial banks to make a sustained contribution to incremental trade in EBRD's COOs.

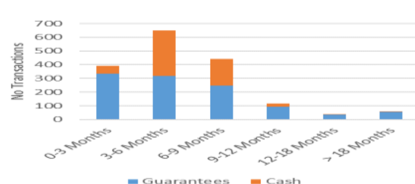
Under the current structure, a theory of change is not apparent, as there is no linkage between number of transactions or number of PBs and actual volumes of trade in COOs, or incremental use of TF by SMEs. Similarly, the operational targets do not facilitate the measurement of TFP contribution to TI. While indicators such as numbers of transactions and training sessions for PB staff imply market development is important, there is no expectation flagged in Board documents that TFP will lead to growth in trade in COOs.

b. Additionality

Additionality is rated low, and possibly negative. Additionality refers to the value addition derived from EBRD's participation in transactions and it is disaggregated into: (i) Financial Additionality (ie resource mobilisation); and (ii) Non-Financial Additionality (ie knowledge, innovation and capacity building). In line with these requirements, management noted in the first evaluation in 2003 TFP's additionality was derived from: (i) availability of longer tenors (1-3 year maturity), compared to 90-180 days from commercial banks; (ii) TFP's support for larger transactions than commercial banks; and (iii) creation of the TFP network, which would not otherwise exist.

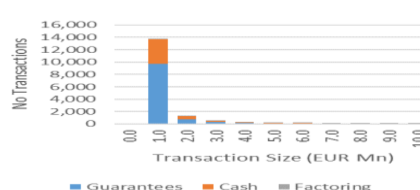
While TFP has capacity to provide long tenors, and finance large transactions, in practice this capacity is not valued by clients. Most TFP transactions over the evaluation period have a tenor of less than 9 months (**Figure 14**), and a transaction size of about €1.0 million (**Figure 15**). Given high levels of competition and liquidity in COOs, and ready availability of commercial TF training for banks, it is not clear why the TFP network and its outputs is a unique source of value to local importers and exporters.

Figure 14:Distribution by Tenor



Source: FI Annual Report, 2019

Figure 15: Distribution by Transaction Size



Source FI Database

An essential feature of additionality is a requirement EBRD does not crowd out the private sector. The TFP team has been delegated responsibility for pricing and reporting to OpsCom. TFP consults with Risk Management when developing pricing schedules. Risk Management reviews margins from an EBRD financial sustainability (bankability) perspective, and OpsCom reviews prices to ensure profitability.

As noted in the IAD report prepared in 2018, this arrangement creates high risks for EBRD. IAD found in 2018 that Risk Management had limited oversight of TFP pricing and TFP staff are incentivised to maximise TFP volumes transacted, rather than profitability. The combination of these factors creates strong incentives for TFP to set prices at below market rates, thereby reducing additionality.

The TFP report to OpsCom benchmarks TFP prices against sovereign rates, but it does not provide any quantitative criteria showing the extent prices exceed sovereign benchmarks, which would normally be the floor price for commercial financial products. A review of the TFP pricing data in these reports indicates TFP frequently priced transactions at rates lower than non-commercial risk free sovereign rates. This result indicates risks of TFP crowding out private TF continue to be high, and additionality is low.

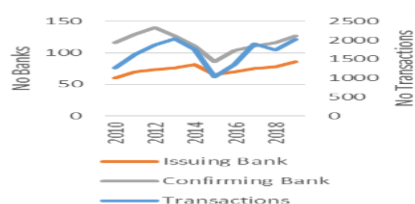
c. Effectiveness

There is no evidence TFP made a positive contribution to growth in trade in COOs over the evaluation period.

(i) Outputs

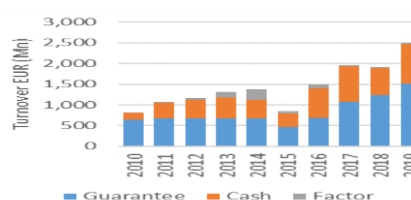
Output definitions have changed over time and reports on TFP delivery are not clear, as they focus on number of transactions. Data on number of transactions indicates TFP operations are at about the same level in 2019 as in 2010 **(Figure 16).** TFP Turnover is reported in FI reports in the context of other FI operations. This indicator shows rapid and sustained growth in TFP volumes over the evaluation period, despite flat or declining trade volumes in COOs. TFP's guarantee was dominant, with factor services making almost zero contribution. (**Figure 17).** Conceptually, guarantees provide the most direct link with trade, as loans and factoring facilities are fungible with other sources of capital, but there is no evidence to confirm this result.

Figure 16: Number of Partner Banks and Number of Transactions



Source FI Database

Figure 17: TFP Turnover by Instrument



Source FI Database

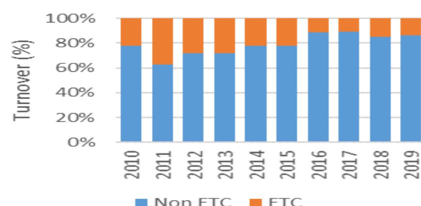
(ii) Outcomes

There is no linkage between outputs and outcomes, and no clear objectives that can be used to draw conclusions on targeted changes in trade in COOs arising from the TFP outputs.

The TFP operational TI indicators imply there will be expansion of TF in underserved markets such as ETCs, intra-regional trade, and SMEs in COOs, via private sector banks. Underserved markets has been interpreted by EVD as SMEs in ETC, SEMED and more recently countries such as Greece and Cyprus. Resilience and GET became targets from 2016 and mobilisation will be important moving forward.

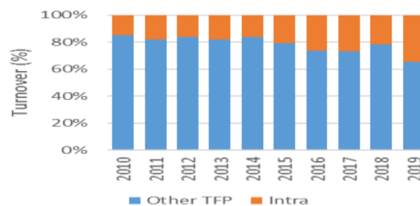
Turnover data indicates TFP has moved away from ETC countries over time (Figure 18), towards non-transition regions of SEMED, Cyprus and Greece. While effects of the GFC gradually declined after 2007, the level of TFP allocated to intra-regional trade grew, reaching 30% of TFP in 2019 (**Figure 19**).

Figure 18: Turnover (%) – ETC Trade



Source FI Database

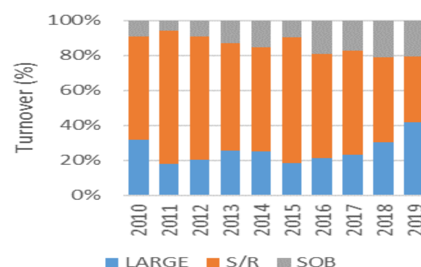
Figure 19: Turnover (%) – Intra-regional Trade



Source FI Database

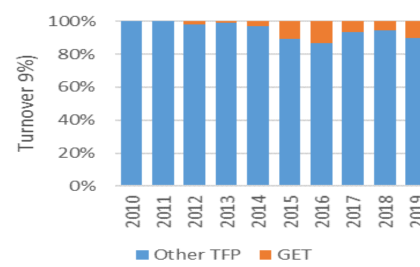
Over time, large international banks, and state owned banks (SOB) have started to dominate the TFP portfolio (**Figure 20**). SMEs are probably not the main beneficiaries of trade finance, due to the size of the transactions (about €1.0 million) and the dominance of trade in large capital-intensive operations such as oil and gas, and metallurgy, accounting for about 40% of TFP volumes. There is no correlation between volumes in TFP and resilience in the event of financial crises. Flat or declining levels of trade coupled with rapid growth in TFP volumes indicates that effects of TFP on resilience were negligible. GET volumes from TFP are about 10% of total volumes, significantly short of EBRD's targets of 40-50% of ABI (**Figure 21**).

Figure 20: Turnover (%) – Commercial Banks



Source FI Database

Figure 21: Turnover (%) - GET



Source FI Database

Mobilisation has not been a specific objective for TFP, but the current SCF indicates it will be important moving forward. The data indicates the amount of mobilisation from TFP has been low, with private sector participation occurring through URPs, and a small amount of risk sharing with CBs.

d. Impacts

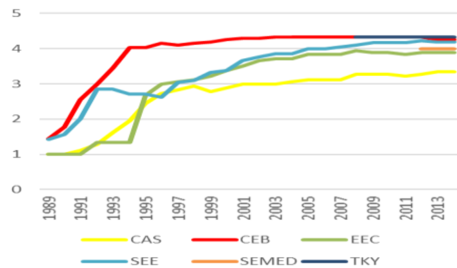
It is difficult to identify impacts of the TFP such as market expansion, or maintenance of liquidity, as there is no theory of change, or basis for measurement.

The TFP is based on a wide range of targets that do not measure changes in outputs and outcomes for target clients such as SMEs in ETCs attributable to EBRD. TI scores reflect assessments of the capacity of PBs at the time they join the TFP network, and compliance with TI operational goals in its scorecard. This approach is premised on the view the primary source of TI is the development of bank linkages and deepening of the commercial relationships between PBs in COOs providing trade finance. In

practice, the data shows that small local banks and SMEs in COOs are not emerging due to the availability of the TFP. No data is collected on SME usage of TFP products and how it has changed over time.

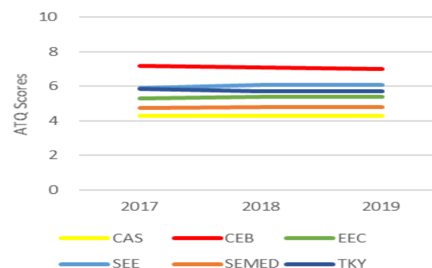
EBRD's TI scores for market expansion up to 2016 (Figure 22), and then integration and resilience ATQs from 2017, have been static since the GFC in 2008 (Figure 23). In comparison, international trade has deteriorated, despite TFP volume growing at 10% pa.

Figure 22: TI Scores 1989-2014



Source: EBRD

Figure 23: ATQ Scores Integration 2017-2019



Source: EBRD

This low correlation between TIs and market parameters such as level of trade appears to be due to the lack of any linkage between trade volumes and TFP, and the practice of calculating scores based on ex ante estimates, rather than actual ex post results. As a result, ATQs and TI scores provide little or no information on actual programme success.

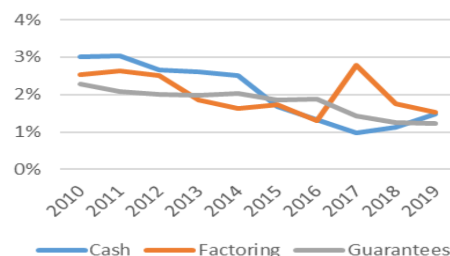
3.5.4 *Efficiency*

While TFP operations are responsive to client demand, TFP efficiency is low due to low returns relative to other operations in EBRD, and value for money from the use of TC grant funds.

Staff numbers have doubled over the last decade, and discussions with TFP client banks indicate the operation is responsive to client demands. Control systems seem to be working well, and there was no evidence of issues associated with adequacy of E&S, KYC and AML controls. There do not appear to be concerns about the MIS system in terms of managing transactions, but financial reporting on pricing, profitability and rates of subsidisation is inadequate.

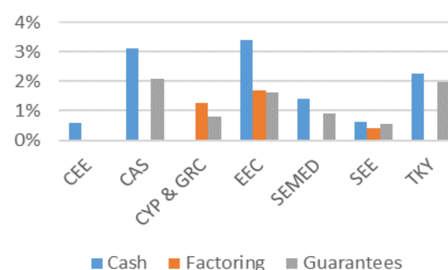
TFP's ability to limit its exposure to PBs and underlying short-term and relatively small transactions makes financial risk very low when compared to other non-sovereign financial products offered by EBRD. TFP has only had two PB defaults over 20 years of operation. Returns across outputs has been similar, and are tracking down over time (**Figure 24**). There is no clear pattern in differentials when looking at margins across regions (**Figure 25**).

Figure 24: Average Margins for TFP Outputs by Year



Source FI Database

Figure 25: Average TFP Margins by Region

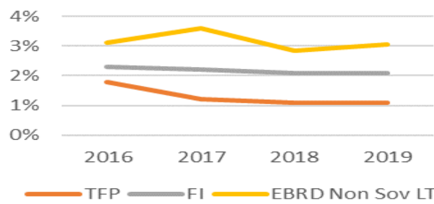


Source FI Database

TFP returns relative to other bank operations are low. In 2019 TFP margins were about 50% of FI non-sovereign loan rates and 30% of EBRD's non-sovereign margins (excluding TFP) (**Figure 25**). It is difficult to obtain reliable estimates of return on capital for TFP instruments relative to other EBRD debt instruments. EBRD's Investment Profitability Model (IPM) for debt calculates ex ante estimates of Risk Adjusted Return on Capital (RAROC) for instruments greater than one year and it provides a critical input into pricing decisions in association with Risk.

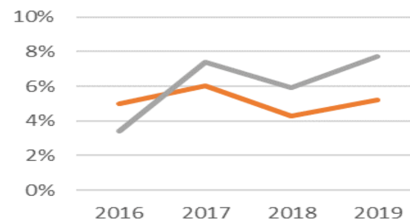
In comparison, TFP relies on its own internal model for pricing decisions, and agrees on acceptable price ranges with Risk before transactions are known. TFP then reports to OpsCom on an annual basis on ex post Required Return on Capital (RORC), This measure is difficult to compare with other instruments as management mainly uses RORC for quarterly reporting on whole of bank operations (including TFP, treasury and equity). TFP management, rather than Finance, prepares estimates of RORC for reporting purposes, and it makes its own assumptions about the magnitude of bank overheads used to provide after cost estimates of RORC. TFP's estimated after cost RORC is significantly less than EBRD's aggregate 3 year rolling average ex post RORC (it is about 60% of EBRD total) (**Figure 26**):

Figure 26: EBRD, FI and TFP Margins



Sources: OpsCom TFP Pricing and Profitability Report, 2018 & 2019, Information Session: RAROC and 2019 debt return trends, 2020, BOI

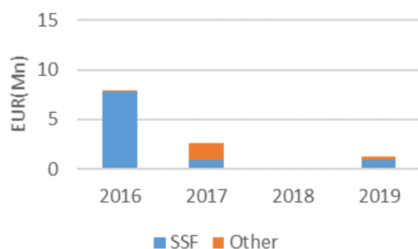
Figure 27: EBRD, TFP After Cost RORC



Sources: OpsCom TFP Pricing and Profitability Report, 2018 & 2019, Quarterly Performance Reports

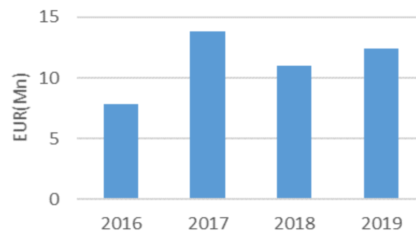
Approved TFP TC (Figure 28) was equivalent to about 26% of TFP's annual net income (Figure 29 over the period 2016-2019. Most of the TC was sourced from SSF, and it was not possible to obtain information on actual drawdowns. These funds were used to develop capacity of PBs to conduct trade finance. There is a high risk these funds are crowding out commercial bank's investments in new TF capacity in COOs, and they do not address SME access issues related to complex processing procedures. There appears to be many opportunities to use these TC funds to facilitate uptake of new digitalisation initiatives, rather than entrench inefficient paper based TF techniques.

Figure 28: TFP TC Approvals



Source: FI Annual Report, 2019

Figure 29: TFP Annual Net Income



Sources: OpsCom TFP Pricing and Profitability Reports

4. Opportunities to Enhance Trade Facilitation

Summary of Constraints and Opportunities:

- TFP's development model is outdated as it is based on concepts of demonstration effects and subsidisation rather than problem solving and market creation
- Trade and trade finance are subject to high levels of technical change based on the development of resilient GVCs, and TF using digital technology
- TFP growth not aligned with growth in trade, shortages of liquidity, or improved SME access to finance
- TFP operational targets are not aligned with TI objectives, with most growth occurring in non-transition countries such as Greece and Cyprus and denominated in FCY
- Vague project selection, pricing and disbursement criteria, low margins, and TFP staff incentives focused on volume create financial sustainability risks
- A theory of change is required based on plausible and feasible assumptions, clearly defined outputs and outcomes, and a performance measurement framework that can be tested with transactions
- The resolution of trade constraints in COOs will require a multi-pronged approach that addresses policy, regulations, institutions, investments in infrastructure, and access to finance
- Similar to WBG, a cascade approach could be adopted where EBRD develops an integration strategy which draws on advice and guarantees to mobilise third party private finance before own finance
- There may be opportunities to develop separate strategies to address resilience and integration goals
- Resources need to be scaled with the problems being addressed
- Staff incentives for TFP should be aligned with the attainment of TI, additionality, and financial sustainability by revising pricing procedures and reporting on profitability

4.1 Overview

In this chapter the evaluation answers the question: "Does experience suggest ways to improve the performance of the TFP?" Constraints are identified, followed by an assessment of opportunities to enhance trade facilitation.

4.2 Trade Facilitation Constraints

Trade facilitation and integration are important objectives for EBRD. From 1989-2015, TFP focused on the creation of competitive markets, mainly through market liberalisation and development of private sector projects and transactions that provided demonstration effects. In 2016, six TQs were introduced that underpinned a new approach to generating TI. The focus shifted to countries and programmes rather than transactions and creating markets through a combination of policy dialogue, developing public institutional capacity and private investment to resolve problems. In comparison, TFP's TI model is based on the concepts of demonstration effects from transactions and subsidising skills transfers to private banks.

Trade and trade finance markets are subject to high levels of technical change. Trade is becoming increasingly focused on GVCs and there are moves to redesign supply chains to make them more resilient. Traditional methods of trade finance are subject to increasing pressures due to digitalisation and a shift towards SF based on prepayments. The operationalisation of new digital platforms based on block technology indicate it is only a matter of time before trade finance instruments and processes are modernised**.** These developments reinforce the conclusion that TFP technology needs to be updated and made more relevant to EBRD's end user clients - SMEs in COOs.

The FSS is a primary document defining the role of TFP, and it has identified it as a core product for FI Department and EBRD generally. The TFP was aligned with the FSS in 2012, and performance is assessed relative to a baseline of average annual turnover of TFP operations (2011- H1 2015) of €1.0 billion pa. In 2019 TFP turnover was €2.5 billion, a difference of 150%. This result indicates the implied FSS strategic target is not ambitious. At the same time, staff are being incentivised to maximise TFP volumes,

which does not take into account broader concepts such as risk adjusted return on capital and mobilisation of private finance from third parties.

TFP was established in 1999 to help resolve issues associated with lack of liquidity in COOs due to transition from a command economy, and then a series of economic crises. Following the GFC and quantitative easing, levels of liquidity in COOs has been high. In comparison, over the evaluation period, TFP volumes have grown exponentially. This rapid growth is a concern, as TFP volumes are relatively easy to generate, particularly when prices are set at non-commercial rates. There is strong demand for mitigation of cross border risk, EBRD has an AAA rating that makes it attractive to commercial banks, trades are agreed in real time, and TFP has low conditionality, making it straightforward for it to rapidly approve transactions and disburse funds.

The TFP operational TI targets, and in particular number of transactions, are the main measures of TI. These indicators are imperfect measures of financial commitment and economic impact, making it difficult to determine what they are targeting. TFP had 19 operational targets in 2011, 26 targets in 2013 and 16 in 2016. Initially the targets were based on indicators such as volume of TFP, proportion of risk transferred to PBs, number of transactions, number of PBs, and number of EBRD funded PB training sessions. In 2016, the volume of TFP and number of PB targets and several other indicators were dropped. Reporting was shifted to number of transactions, making it difficult for non-TFP staff to determine where money was being allocated, and for what purpose. There is no obvious link between TFP indicators such as transaction numbers and changes in levels of trade in COOs, stability of trade flows or improved SME access to TF.

The TFP strategic financial target is one of the main indicators used to measure and remunerate FI banking staff performance. Departmental incentives based on lending volumes discourages the pursuit of TI, and coordination of delivery of outputs across departments. As noted by IAD, these incentives also create financial sustainability risks for EBRD as they do not take into account risk adjusted returns on capital. Following the recent downgrade in EBRD's credit rating, financial sustainability has assumed increased importance for the Bank. The lack of responsiveness of management to repeated recommendations by EVD and IAD to revise pricing procedures raises questions about why it is so difficult to introduce change. There is a question about whether there are more fundamental constraints precluding reform such as an inability for management to reallocate staff across banking departments in line with EBRD priorities and expected financing volumes.

About 40% of TFP trade is derived from high emission sectors such as oil and gas and metallurgy products, which is at variance with EBRD's alignment with the Paris Agreement under GET 2.1. Both sectors have high environmental risks, and it is likely EBRD will start to phase out financing of all fossil fuels in the near future, raising questions about sustainability of future demand for TFP. Further uncertainty arises from the rapid and potentially transformative impact of digitalisation on TF, particularly for SMEs.

The TFP operational targets are not aligned with TI objectives. In recent years, most growth has occurred in new markets such as SEMED, Greece and Cyprus, which are not transition countries and have reasonably well developed FIs, indicating TI is not the primary goal.

TFP transactions are mainly denominated in USD or EUR, discouraging demand. This result is surprising, as it should be straightforward for EBRD to offer short-term LCY facilities. Other MDBs such as ADB have offered LCY facilities for many years, raising the question of why EBRD is not following the same practice given that it is already a strategic objective in the FSS.

Mobilisation rates are low. Risk transfer to CBs has been an important objective for TFP, as it was seen as a sign of increasing maturity of the market and TI. Since 2016, there has been a recovery in risk transfers

and they reached 15% of turnover in 2019. The recent upturn in CB risk transfers is a welcome development, but overall, the levels of transfer of risk and financing are low. There are no clear incentives for TFP staff to spend time transferring TFP risk to third parties.

The lack of mobilisation, and diminished levels of demonstration effects after two decades of subsidised training for commercial banks, raises questions about the value for money from the TC. Most TC is spent on training services, which are readily available online at low cost. Similarly, it is not clear why grant funds are used to establish first loss facilities, when there have only been two defaults in many thousands of transactions. The concern about lack of TC benefits is compounded by the potential risks for EBRD of crowding out private investment through a combination of under-pricing and subsidising commercial bank inputs.

TFP has substantially exceeded its FSS baseline, and transfer of skills operational target, but it has not achieved most of its PB market expansion targets in recent years. The introduction of new TQs and focus on market creation reinforces the conclusion the TFP results framework is not fit for purpose.

The evaluation of TFP could not identify a theory of change to explain what problems TFP is addressing and how TFP is supporting the development of trade in COOs. The large number of operational indicators compounded difficulties discerning the primary objectives of the TFP and the outputs driving change. The shift from ETC to non-ETC countries, lack of progress on developing factoring services, and continued use of state own banks, indicates most of the TI indicators are not relevant.

Due to weaknesses from a lack of a theory of change, a results framework that does not reflect outputs and outcomes, and benchmarks or targets to measure change, it is not possible to say anything about TIs attributed to the TFP. The ATQ and TI indicators have not helped this analysis as they have hardly changed over the last decade. At the same time, overall trade and FDI in COOs has deteriorated, despite a substantial increase in EBRD resources allocated to TFP, and a results framework that implies a linkage with trade volumes in COOs.

Profitability estimates in OPsCom reports are prepared by TFP rather than Finance Department. EBRD's IPM calculates ex ante RAROC with a tenor of greater than one year, and it does not support TFP calculations as its tenors are less than one year. The lack of an independently reviewed ex ante profitability model to guide pricing was flagged in the IAD report as being high risk in 2018**.** TFP has developed its own in-house profitability model, but it is not comparable to the RAROC metrics used by other debt instruments, and it resulting in low levels of ex post profitability relative to other debt instruments.

4.3 Opportunities to Strengthen Trade Facilitation

Opportunities for EBRD to increase trade in COOs are considered under the following headings: (i) revising the way TFP impact is defined, measured and reported, (ii) developing new markets and products at country level; (ii) reviewing the TFP organisation structure and capacity, and (iii) reviewing the methods of pricing, and measuring and reporting profitability.

(i) Develop A Theory of Change and an Evaluable Performance Management Framework

Similar to the two previous EVD evaluations, it is recommended the TFP develop a new way to measure and report on TI. A methodology is required that reflects a theory of change that defines problems to be solved, makes plausible and feasible assumptions about how change can be effected, clearly defines outputs and outcomes, and specifies targets and benchmarks to enable measurement, which can be tested with ex post transactions.

The ICC survey indicated that the main constraint of SME access to TF was complex processing requirements. This finding suggests EBRD assistance should target ways to reduce transaction costs. Possible areas that might be changed by TFP include developing new processes with Governments and SMEs. Similar to IFC, EBRD could consider establishing on line facilities to assist with processing. Offering LCY finance is another opportunity to reduce risks of international for SMEs. Developing structured finance products that link working capital with investment finance and explicitly target growth in exports in an option. Perhaps most importantly, EBRD could actively promote the development of new digital platforms that have the potential for dramatically reducing times, and could automate most of the processing requirements.

Once the problem and the expected solution have been identified, a results framework can be defined that provides clear linkages between inputs, outputs, outcomes and TI and provides the following information:

- **Relevant** TI definitions that define the problems to be solved to facilitate growth in international trade in COOs, expected growth over time, expected location and expected beneficiaries;
- **Additionality**, based on verifiable financial and non-financial sources;
- **Outcomes** measures that identify changes in trade relative to baselines and targets in variables such as: (i) exports and imports, (ii) goods and services; (iii) ETCs and Non-ETCs; (iv) Banks and SMEs; and (v) mobilised third party finance.
- **Outputs** that clearly define incremental revenues derived from instruments such as: (i) Advisory, Guarantees, Loans, Escrow Accounts, Hedging, LCY; and (ii) potential for developing structured finance products.
- **Inputs** that clearly define: (i) resource requirements in terms of number of staff, financial resources, and time; (ii) fully costed ex ante RAROC to support pricing and can be compared with other EBRD products to assess financial sustainability and efficiency; and (iii) TC volumes linked to objectives such as contribution to market creation and leverage of mobilised finance.
- **Monitoring reports** for the Board that clearly identify the theory of change, the measurement framework, critical assumptions and risks, and provides a basis to assess contribution to impact based on TFP's relevance, and effectiveness and efficiency achieving TFP goals over time using ex ante targets and ex post data on RORC relative to other debt instruments.

(ii) New markets and products at country level

International trade and the need for TF will continue to be a high priority for EBRD over the medium term. There is evidence international trade can have a transformative effect on economies. For trade to become effective, it requires reforms across multiple fronts including trade policy, investment in infrastructure and working capital, and access to long and short-term finance.

While the need for trade is clear, it is more difficult to determine the best way of removing constraints on the use of and availability of TF to support trade. At present TFP seems to be based on the premises that: (i) EBRD requires latent capacity to provide TF in times of crisis, and (ii) since the facility is in place, it should be offered to available clients on an ongoing basis, independent of liquidity conditions. This approach seems both ineffective and inefficient.

As noted in previous evaluations, TFP transactions in isolation cannot address weaknesses constraining the availability of TF in COOs. While there has been an increase in demand for TFP due to the GFC, and again with Covid 19, these periods of constrained liquidity tend to be short lived. It is not

clear that EBRD's delivery of TF during times of crisis is having a substantive impact, given the very small volumes of TFP, relative to trade flows that are measured in units of trillions of dollars.

EBRD can take a more proactive and targeted approach to resolving TF constraints. An analysis is required of expected growth in trade finance and likely competitiveness of substitute products such as Supply-Chain Finance, prepayment services offered by fintech companies, and new digital online TF systems developed by commercial banks that use new blockchain technology. Climate change policies and the Covid 19 shock may encourage international GVCs to become more regionalised, and located closer to home markets, creating new opportunities for COOs, that can be captured in country diagnostics.

Similar to the WBG, EBRD could potentially adopt a cascade approach where it develops an integration strategy using grant funds to provide advice to governments to address market bottlenecks, and develop new infrastructure to support trade using mobilised third party finance, before offering TFP finance. New institutional capacity is needed in COOs to develop policies, and regulations to develop digital trade networks and digital economy agreements. The G20 is formulating a new framework improving existing arrangements for TF, and exploring the potential role of new payment infrastructures and methods. This framework could potentially provide a template for EBRD to conduct country diagnostics and develop regional and country strategies that meet their needs to access resilient trade.

There are opportunities for TFP to provide importers and exporters with financial structures that combine both medium term investment and short-term liquidity. TFP has already been exploring this concept in the context of GET and SEFFs, but it is constrained by the current policy where TF only supports intermediary banks rather than SMEs. There may be opportunities for EBRD to strengthen linkages with ExCAs, by providing unfunded and funded instruments to investors and traders on a parallel basis. The development of a business model that is similar to ExCAs, would help meet GET and mobilisation targets.

Ideally, TFP operations should be set in the context of an EBRD Integration Strategy. As noted in EVD's evaluation of integration projects prepared in 2020, EBRD progress on achieving integration goals has been limited to date, and most privately financed integration projects have not been a success. Similar to other MDBs there is a strong case for EBRD to develop a Board-approved strategy defining its support for regional integration with objectives that can be used to measure results.

(iii) TFP Organisation Structure and Capacity

Under the current organisation structure, TFP only works with banking clients and it provides traditional short-term TF products. Other banking departments in EBRD tend to avoid the provision of short-term finance, as competition from commercial banks tends to be greater in this end of the financial markets. The polarisation of short and long-term financing instruments within EBRD potentially creates opportunity costs as it is missing unserved markets that support greater levels of integration. IFC has addressed these constraints by placing its Global Trade Facilitation Program (GTFP) in a Trade and Commodity Finance Department. This department can provide a mix of funded and unfunded working capital products across multiple sectors using short and long-term instruments.

There is a need to identify ways to scale allocation of resources to TFP to meet liquidity needs in times of crisis, relative to other times, when TFP markets require less direct financial support. There may be potential to establish a standby TFP with FI for financial crises and a separate product focussed department that provides working capital facilities to banks and SMEs. Similarly, staff require incentives to mobilise private finance, as well as own finance. EBRD is conducting a review of mobilisation arrangements in 2021 and these findings can feed into the TFP strategic framework.

As noted in previous evaluations, there are likely to be opportunities for TFP to sell down a greater proportion of its portfolio to third parties. This activity sits within TFP, which does not have any incentives to divest these assets. At present, about 15% of the risk attached to TFP assets is transferred to third parties. The risks of default are extremely low, indicating this activity could potentially be scaled up.

There is a need to review TFP capacity to meet opportunities to facilitate the development of digitalised trade finance, and potential relocation of GVCs to COOs. There are questions about whether EBRD should invest in IT Capacity to accept and manage prepayments in a similar way to Security Banks, or invest in new companies such as We-Trade that are providing block chain solutions. There is a need to assess whether EBRD should continue to provide traditional forms of TF, or develop new products disbursed using the new digital platforms, rather than EBRD's existing IT systems.

The combination of incentives to maximise TFP volumes, rather than return on capital, low rates of return, inefficient use of assets, and low rates of transparency in current reporting arrangements is undermining performance. These findings indicate there is a strong case for establishing TFP as a standalone line of business with its own profit centre and balance sheet. This arrangement would have many benefits as it would create opportunities for TFP to work with other EBRD departments and external clients and focus on addressing TF market constraints, rather than providing permanent capacity for delivering standby liquidity. A standalone TFP would make it easier for it to prepare transparent reports that clearly identify performance. Similar to IFC, there are strong arguments to separate short term TFP ABI from long term ABI in board reports so the board understands whether funds are being allocated to meet liquidity or investment constraints in COOs.

(iv) TFP Pricing and Profitability

Despite several evaluations and internal audits flagging financial risks, TFP still continues to retain control of pricing with limited oversight. Evidence indicates that TFP is frequently pricing transactions at levels significantly below sovereign rates. This practice creates risks of crowding out the private sector, and potentially financial sustainability risks for EBRD.

TFP generates low rates of return relative to other EBRD products. In many COOs, short-term funds are priced at negative interest rates, creating risks that TFP margins are further eroded. These risks indicate that financial sustainability of TFP is a matter of some concern. TFP relies on its own internal pricing model, independent of the RAROC model developed by Finance Department for other loan products, and reports on ex post margins and RORC. This lack of oversight seems to be based on the premise that TFP is a small low risk operation and it is being used as a loss leader, with limited impact on profitability. While this may have been the case 10 years ago, TFP turnover has been growing at 10% pa and accounted for 14% of EBRD's ABI in 2019.

There may be opportunities for IPM to be adapted to calculate ex ante returns from TFP that are comparable with other debt instruments. These estimates could be used to help inform management and the Board on opportunity costs and financial sustainability. Irrespective of the final ex ante pricing methodology selected, Finance Department should be required to sign-off the TFP pricing and IPM calculations reported to management and the Board. TFP staff incentives could be strengthened by including a minimum return on investment component in their scorecards.

5. Sources

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[19] Evaluability Assessment of Transition Qualities, EVD, 2020

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[22] N = No; Y = Yes

Annex 1: Trends in Trade and Investment

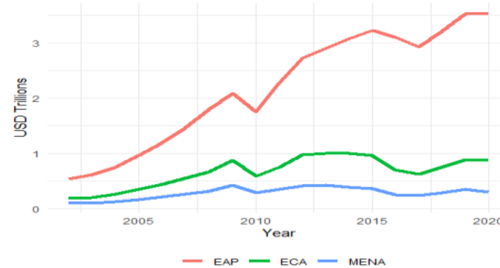
1. International Trade

After the Global Financial Crisis (GFC) in 2008 and trade disputes between United States (US) and China starting in 2018, global growth started to slow, but remained positive (Figure A1.1). Most of this growth in trade occurred in lower and middle income countries in East Asia and the Pacific (EAP). In comparison, growth in traded goods in Europe and Central Asia (ECA) and Middle East and North Africa (MENA), excluding high income countries, has been flat since the GFC in 2008 (**Figure A1.2**). Due to the Covid-19 pandemic global trade volumes have fallen in 2020 and prospects for future trade are uncertain. The effect on trade volumes over the next few years will depend on the scale and duration of the pandemic.

Figure A1.1: Global GDP and Trade (US$ Trillions)

Source: WDI

Figure A1.2 Global Traded Goods by Region, excluding high income countries (US$ Trillions)



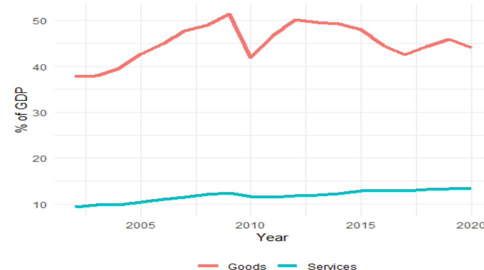
Source: WDI

Growth in trade of manufactured goods relative to global GDP has been declining since the GFC (**Figure A1.3**). In part, growth in services offset the decline in traded goods in the global trade mix (**Figure A1.4**). Services are comprised of outputs such as travel, transport, finance and insurance. Services are an important source of future growth, with estimates of a reduction in trade costs by as much as 3.5% if the professional services market is deregulated and provided from a distance.[22]

Figure A1.3: Growth in Global Traded Goods and GDP (Index 2000 = 100)

Source: WDI

Figure A1.4: Global Traded Goods and Services (% GDP)



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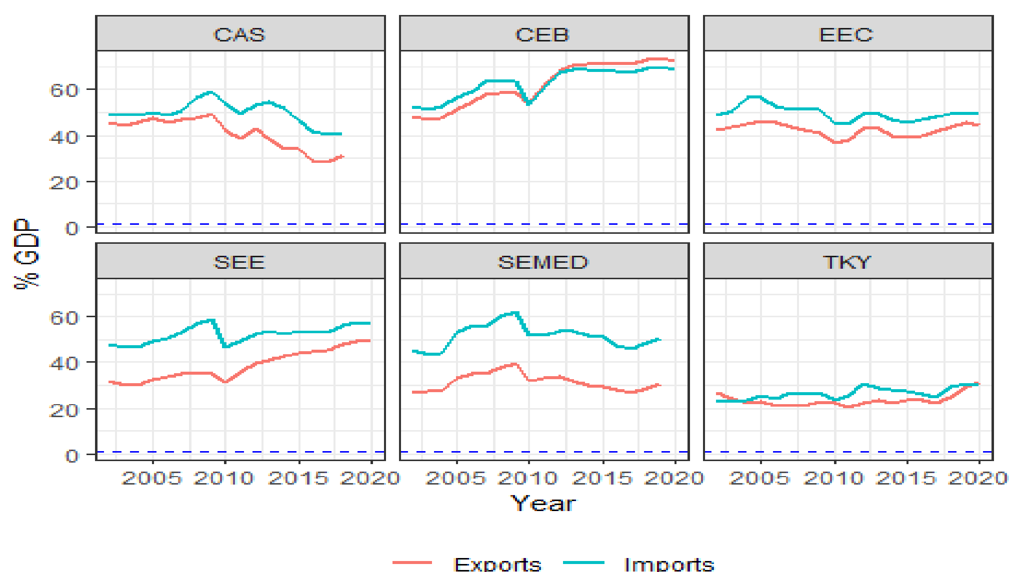
2. Trade and Investment in COOs

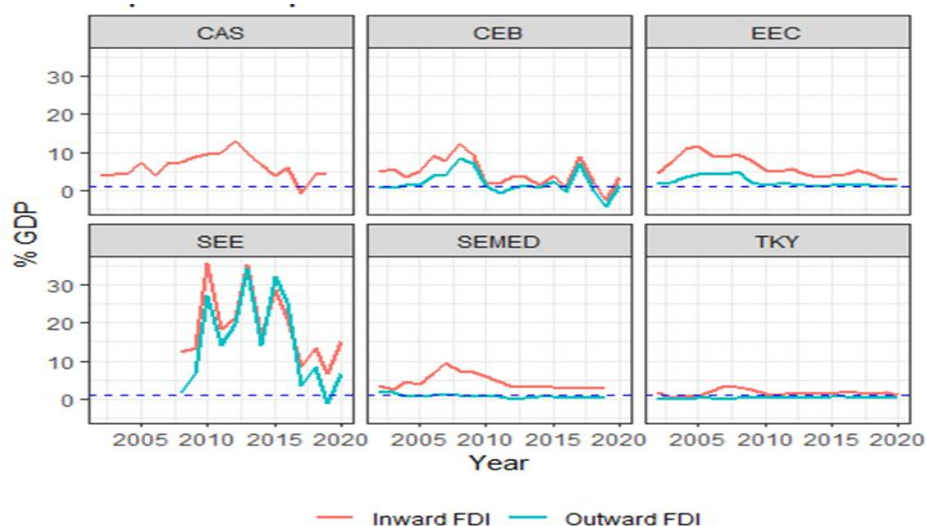
Figure A1.5: Exports and Imports of Goods and Services in EBRD's COOs (% GDP)



Source: WDI

Despite COOs being reasonably open, there has been almost no growth since the GFC, and trade has been contracting in regions such as CAS and SEMED (Figure A1.5). Exports are consistently less than imports across all EBRD regions, and in regions such as Central Asia (CAS) and South Eastern Mediterranean (SEMED) by a substantial margin. A range of factors have affected growth in trade such as weak demand, low scores on the World Bank's Logistics Performance Index (LPI) outside Central Europe and the Baltics (CEB), and very low and declining FDI, particularly since the GFC (**Figure A1.6**).

Figure A1.6: FDI in COOs



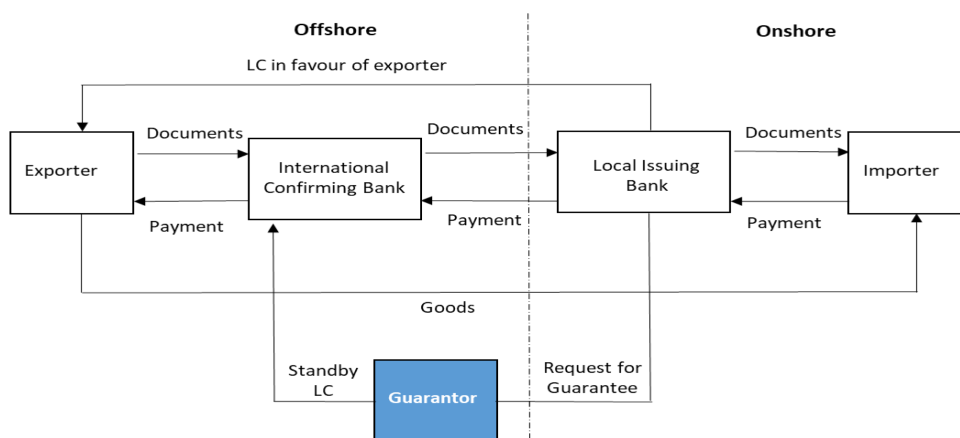
Source: WDI Data

Annex 2: Trade Finance Instruments

1. Short Term Trade Finance

Unfunded trade finance instruments consist of Letters of Credit (LCs) from local issuing banks (IBs) to exporters and international confirming banks (CBs) and Standby LCs that counter-guarantee the LCs (Figure A2.1). This is the most common form of trade finance (TF) instrument offered by multilateral development banks (MDBs).

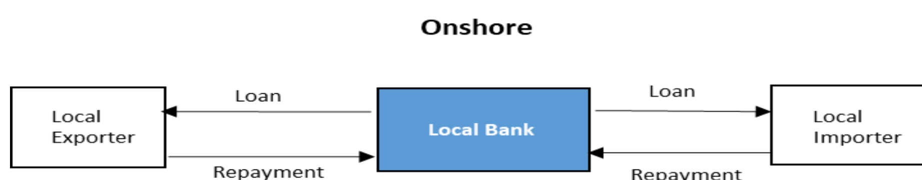
Figure A2.1: Illustrative Unfunded Import Trade Finance Instrument



Source: EVD

Funded instruments consist of loans and working capital finance. Loans have short-tenors, often financed with revolving credit facilities collateralised with a floating charge over the inventory (**Figure A2.2**).

Figure A2.2: Local Trade Loans for Exports and Imports



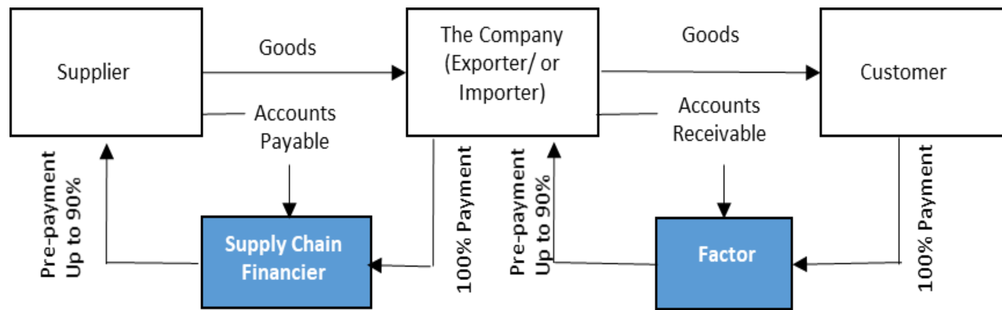
Source: EVD

Working capital instruments fund accounts receivable and accounts payable (Figure A2.3). These instruments exist in any supply chain, and all transactions maybe local, or there can be a mix of offshore and onshore payments. Factoring is a source of funding where a supplier sells receivables from its customer at a discount to a third party (a factor) for early payment. Suppliers do not have control over the payment of receivables and they need to sell the receivable to a factor at a discount to reflect time value of money and credit risk. Suppliers can use these funds to repay short-term loans and free up underlying collateral.

In comparison, a company (which may sit anywhere in a supply chain) does have control over its payables and it can agree to prepay these amounts to a third party. The early payment of accounts receivable is referred to as supply chain finance (SF) and it is the reverse of factoring. SF has advantages relative to factoring as the company making the pre-payment receives a premium, or increased security of supply, and there is no requirement to provide collateral. SF enables suppliers to finance their receivables

more easily and potentially at a lower interest rate offered by banks due to the higher credit status of the buyer.

Figure A2.3: Working Capital Payments

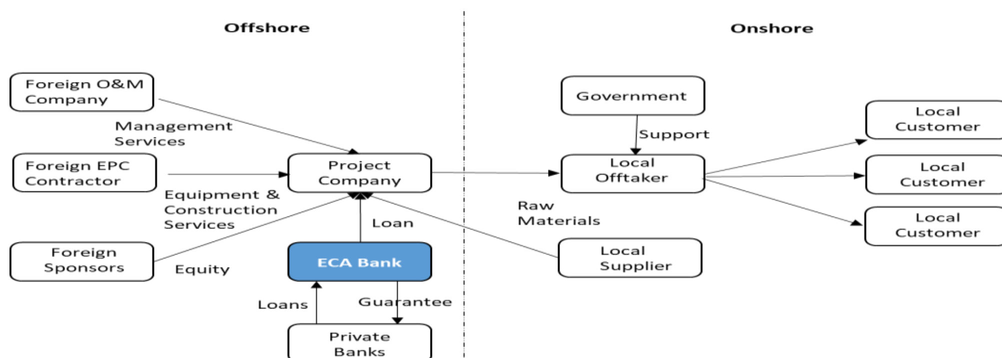


Source: EVD

2. Long Term Export Finance

Export Credit Agencies (ExCAs) support exports of equipment from ExCA countries to developing countries. ExCA support is provided to projects requiring machinery in sectors such as transport, energy, and agriculture. ExCAs have become much more active since the Global Financial Crisis (GFC). Risks attached to export finance for banks are extremely low, mainly due to high levels of coverage from the ExCAs that average about 94% of the value of the underlying transactions.

Figure A2.4: Illustrative ExCA Structure



Source: EVD

Annex 3: TFP Programmes at Other MDBs

1. World Bank Group (WBG)

(i) Public Sector Operations

The WBG's public sector arm, International Bank for Reconstruction and Development (IBRD) has been actively promoting international trade since the 1980s. IBRD currently has a Trade Facilitation Support Programme (TFSP) in place that helps developing countries benefit from increased trade and foreign investments that result in increased private sector trade competitiveness. The TFSP builds on the trade facilitation reforms in the areas covered by the WTO Trade Facilitation Agreement (TFA) signed in 2013. The TFA streamlines customs procedures and the movement of goods in transit. The TFSP has a large Technical Assistance (TA) component to enable TFA reforms. WBG structures its development programmes around GVCs that provide both advice for software (customs procedures and tariffs) and sovereign financing for hardware (logistics infrastructure).

(ii) Private Sector Operations

International Finance Corporation (IFC) has been providing trade finance since 2005, and it is currently coordinating multiple different facilities under its IFC 3.0 Strategy approved in 2018. The primary objectives of IFC 3.0 are the creation of markets and mobilisation of private finance. IFC has a cascade approach that prepares country diagnostics and applies advice from upstream advisory units to create the enabling environment and prioritise the financing of projects with own finance and mobilised finance. IFC is creating markets by developing institutional capacity, fostering innovation through demonstration effects, and supporting integration of GVCs. Within this framework IFC provides a range of unfunded and funded trade finance facilities. Many of these facilities are leveraged through the use of co-financiers' funds and sale of assets on a funded or unfunded basis.

The Global Trade Finance Programme (GTFP) was established in 2005. It has supported over 68,000 transactions to date for more than US$66.5 billion. GTFP is comprised of three outputs:

- **Partial or full guarantees** to confirming banks (CB) covering payment risk on banks in emerging markets for trade related transactions;
- **Loan funding to banks for short-term pre-export financing**. IFC may provide a price incentive or longer tenors for equipment and projects that have clearly defined climate change benefits as part of its Climate Smart Trade initiatives or support sustainable GVCs with Sustainable Shipment LCs; and
- **Technical training for issuing banks (IB)**, and advice on how to develop their trade finance capacity.

The Global Trade Liquidity Programme (GTLP) was introduced following the global financial crisis in 2008. The GTLP promotes private sector trade by mobilizing funded and unfunded financing for trade transactions in targeted sectors and regions. IFC partners with global and regional correspondent banks (together, "Utilization Banks"). Under these agreements, IFC can acquire up to 50% interest in a portfolio of trade transactions originated by the Utilization Banks on funded or unfunded basis. To date, GTLP has supported over US$53 billion in global trade volume via nearly 24,000 transactions.

The Global Trade Supplier Finance (GTSF) Programme was established in 2010. The GTSF provides short-term supply chain finance (SF) (receivables) financing to SME suppliers selling to large domestic buyers or exporting to international buyers on a multi-currency basis. IFC provides support by credit scoring importers and discounting invoices with an average invoice size of approximately US$13,000. IFC provides this financing directly to suppliers via web-based supplier finance platforms or indirectly through financial

institutions. IFC can also structure funded or unfunded risk participations with financial institutions that offer SCF and help them increase their presence in emerging markets. Since the programme launch in 2012, IFC's GTSF programme has disbursed about US$3 billion to close to 1,000 suppliers across 14 countries.

The Critical Commodities Finance Programme (CCFP) was launched in 2012 and it channels funds to support the trade of essential commodities in low-income countries. The CCFP programme provides funding or guarantees to intermediaries of agricultural and energy products, mainly in Africa. IFC shares up to 50% of the risk of a portfolio of these transactions with partner banks. To date, CCFP has supported over US$23.5 billion in global trade.

The Global Warehouse Finance Programme (GWFP) provides banks with liquidity or risk coverage backed by warehouse receipts, which enables them to provide short-term loans or guarantees to agricultural producers and traders. Warehouse financing allows banks to shift risk from borrowers' fixed assets to the commodities that farmers produce. It also provides farmers with flexibility in timing sales to protect against price seasonality. To date, GWFP has supported over $6 billion in global trade. The programme has two components:

- **Credit Line**: IFC offers a short-term loan to a bank, which will in turn use the funds to lend to farmers, agricultural commodity producers, or traders against warehouse receipts or equivalent as collateral.
- **Funded or Unfunded Risk-Sharing Facilities**: IFC participates in up to 50% of short-term loans extended to agricultural commodity producers or traders against warehouse receipts or equivalent as collateral. Banks can transfer credit risk to IFC from their own portfolio or from a new portfolio they originate. The assets typically remain on the banks' balance sheet, and the risk transfer comes from a partial credit guarantee provided by IFC.

The Structured Trade and Commodity Finance initiative (STCF) is the most recent trade facility and it provides short-term liquidity or risk mitigation for the trade of critical commodities in emerging markets. Facilities typically consist of secured revolving short-term trade facility, with a banking partner acting as security agent. STCF uses collateral management to support lending at all stages of the supply chain (exporter/producers, trading companies, importer/processors). To date, STCF has supported over US$3 billion in global trade of energy and agricultural commodities.

2. Asian Development Bank

(i) Public Sector Operations

ADB has supported various regional and sub-regional cooperation programmes since the early 1990s. A strategy has been in place since 2006 to guide its work with developing Asian nations on regional cooperation and integration (RCI). The RCI consists of four separate, but interrelated activities: (i) regional and sub-regional programmes on cross-border infrastructure and related software; (ii) trade and investment; (iii) money and finance; and (iv) regional public goods such as prevention of communicable diseases and environmental degradation. The RCI helps ADB coordinate its public sector operations, particularly in the areas of sovereign financing of infrastructure and development of the financial sector.

(ii) Private Sector Operations

Similar to WBG, ADB's private sector operations has a dedicated Trade Finance Programme (TFP) that fills market gaps for trade finance by providing guarantees and loans to banks. The programme supports a wide range of transactions, from commodities and capital goods to medical supplies and consumer goods. From 2009-2017 the TFP supported more than US$30 billion of transactions, and

generated co-financing of $17.85 billion. Maximum transaction tenor is 3 years, and the average tenor is less than 180 days. ADB had more than 240 partner banks.

ADB's TFP products can be provided in a wide range of currencies including US dollar, euro, yen, renminbi, New Zealand dollar, and Australian dollar:

- **Guarantees:**
  - **Credit Guarantee**—covers up to 100% of bank risk, provided within 24 hours; more than 75% of the TFP's portfolio is generated through the CG product
  - **Risk Participation Agreement**—unfunded participation in up to 85% of bank risk in trade transactions
- **Funded Products:**
  - **Revolving Credit Facility** —provides loans up to 100% of value directly to banks in the TFP countries of operation to support pre- and post-shipment transactions
  - **Funded Risk Participation Agreement**—pilot launch in 2017; invests in up to 50% of bank risk in support of funded trade transactions
- **Cofinance**
  - **Risk Distribution Agreement**—the TFP leverages capital resources and credit limits by sharing risk with co-financiers
- **Knowledge**

ADB's TFP created the Trade Finance Register in conjunction with the ICC. The register provides annual default and loss rates on global trade finance transactions, helping bank regulators and financial institutions understand and calibrate risk parameters for trade finance. TFP has published the annual "ADB Trade Finance Gap, Growth, and Jobs Survey" since 2013 to identify and quantify market gaps for trade finance and the impact on economic growth and jobs. TFP provides training and seminars in trade finance and banking to build expertise.

3. African Development Bank

AfDB's Trade Finance Programme (TFP) was established in February 2013 as the successor to the Trade Finance Initiative launched in 2009 in response to the global financial crisis. The total size of the TFP is US$1.0 billion. The TFP consists of three products:

- **Risk Participation Agreement** - CBs and the AfDB share the default risk of a portfolio of trade finance transactions. The instrument gives regional and international CBs partial cover for their trade finance operations in Africa, with the AfDB typically taking a 50% share of the risk.
- **Trade Finance Line of Credit** - Short term lines of credit are offered to African financial institutions to facilitate their own trade finance operations. Proceeds enable financial institutions to extend credit support to SMEs operating in either the import or export sectors of the economy.
- **Soft Commodity Finance Facility** - This is a funded trade finance product targeted at commodity aggregators and export marketing agencies for soft and agri-based commodities, such as cocoa and coffee. These organizations deal directly with farmers, and use SCF loans to support the agri-commodity supply chain at the grassroots level by increasing presale of produce.

4. Inter American Development Bank

IADB created the Trade Finance Facilitation Programme (TFFP) in 2005 to support Latin America and Caribbean banks' access to international trade finance markets. Initially, the TFFP was allocated US$1.5 billion, and it was subsequently increased to US$3 billion to mitigate the effects of the Covid 19 crisis. The TFFP network is comprised of over 100 banks in the Latin America and Caribbean region and over 100 correspondent banks worldwide. Similar to other IFIs' trade finance programmes, the TFFP provides a mix of short-term loans to local banks to finance portfolios of eligible trade transactions and credit guarantees to global banks to mitigate any risk associated with trading instruments issued by local. Recently, IADB has expanded its product offerings by offering SCF to SMEs.

5. Islamic Development Bank

The International Islamic Trade Finance Corporation (ITFC) is a member of the IsDB Group. ITFC was established in 2008 and has provided more than US$51 billion of trade finance, mainly in the form of guarantees. The ITFC provides advice to partner banks to develop trade finance capacity.

6. European Investment Bank

European Investment Bank's (EIB) provides trade finance through banks and other financial intermediaries, to small and medium sized enterprises (SME) and mid-caps, but levels of support are small and relatively recent. Examples include the first Trade Finance Facility (TFF1) for €400 million that was launched in June 2013 and it expired in December 2016. In 2017 a €400 million TFF2 guarantee facility was launched for Greece. It helps Greek SMEs to increase exports and imports. Under TFF2, the EIB guarantees LCs, provides other trade and export finance instruments issued by Greek banks, with a tenor of up to 3 years.

Annex 4: External Evaluations and Studies

1 World Bank Group (WBG)

1.1 Overview

WBG has prepared two evaluations of its support for trade programs, the first for the period 1987-2004, and the second for the period 2006-2012.

1.2 Trade Support 1987-2004

The report noted that the environment for international trade in most developing countries had improved. Tariff and non-tariff barriers reduced, and import constraints eliminated. In comparison, results for exports were less successful, and had not contributed to growth at the levels originally anticipated. WBG support had gone through three phases|: (i) 1980s to early 1990s it focused on reform of developing country trade policies and supporting trade-related institutions and infrastructure; (ii) from the mid-to late 1990s, support for trade was scaled back; and (iii) from 2001 it renewed its focus on trade, directing lending towards trade facilitation (both physical infrastructure and institutions).

Independent Evaluation Group (IEG) found WBG had underestimated the complexity of complementary reforms in the investment climate, paid inadequate attention to external factors, and gave insufficient attention to analyzing the poverty-distributional outcomes. While economic growth often improved after liberalization, it was often not due to an improved export supply response, but rather to more general efficiency gains brought about by removing trade-related distortions.

1.3 IFC's Global Trade Finance Program, 2006-2012

WBG's second evaluation of support for trade was prompted by its 2011 strategy Leveraging Trade for Development and Inclusive Growth. The strategy identified areas that the WBG is emphasizing in its support for enhanced trade in developing countries. The strategy is premised on the central role of trade as a driver of economic growth and development in developing countries.

International Finance Corporation (IFC) introduced the Global Trade Finance Program (GTFP) in 2005. The goal of the program was to "support the extension of trade finance to underserved clients globally." In November 2004, the Board of Directors approved IFC's proposed $500 million GTFP. The GTFP aimed to overcome weaknesses of earlier trade finance facilities by providing guarantees to support the payment obligations of local banks.

The GTFP expanded rapidly, and increased its authorized exposure ceiling in three stages from $500 million in 2005, to $3 billion in 2008 following the global financial crisis (GFC), to $5 billion in 2012. In FY12, the GTFP accounted for 39% of total IFC commitments, 53% of its commitments in Sub Saharan Africa, and 48% of its commitments in Latin America and the Caribbean**.** IEG noted that IFC's method of reporting its short-term trade finance volume may overstate its relative size in IFC's business.

The GTFP was supported by IFC's $1 billion Global Trade Liquidity Program (GTLP) established in 2009. The GTLP was subsequently modified in January 2010 and converted to an unfunded guarantee facility. In 2011 two additional trade and supply chain programs were initiated: the Global Trade Supplier Finance program and the Global Warehouse Finance Program. These two programs aim to support access to working capital for suppliers in developing countries and for farmers and small and medium-size enterprises (SMEs) in the agriculture sector.

IEG concluded the GTFP had been a relevant response to demand for trade finance risk mitigation in emerging markets. The GTFP significantly improved IFC's engagement in trade finance by introducing

an open, global network of banks and provided a quick and flexible response platform to support the supply of trade finance. The GTFP has high additionality among high-risk countries and banks, where the supply of trade finance and availability of alternate risk-mitigation instruments are lower.

The expansion of GTFP in lower-risk markets raises the need for close monitoring of its additionality in these regions. Initially, the GTFP was concentrated in higher-risk, lower-income countries, particularly in the Africa Region. During the GFC, the program's risk-mitigation instrument became relevant in much broader markets. After the GFC in 2009, although the GTFP continued to expand in high-risk markets, in terms of dollar volume it grew faster in low- and medium-risk countries. The GTFP guarantee amount issued to support low risk banks in low risk countries rose from 10% in 2006–08 to 21% in 2009–12.

Pricing was an important tool to help ensure IFC's support was additional. IFC currently has regional volume targets but does not have return to capital-based targets. This may create some tension between the dual objectives of meeting volume targets and ensuring pricing levels that do not risk crowding out any viable existing instruments.

IEG assessed the GTFP's effectiveness against achievement of key objectives. The overarching objective of the GTFP is to help increase access to trade finance among underserved markets.

IEG concluded the GTFP had an important presence in low income fragile countries supporting SMEs and it played a useful role in helping connect local emerging market banks with global banks. It helped global banks extend their capacity to do business in developing countries, as they can be limited by regulatory constraints on capital, among other factors.

SMEs were supported, as 80% of GTFP guarantees (by number) were worth less than $1 million (IFC's proxy measure for SMEs), although the bulk of the program's volume supported large transactions. IEG had some concerns about this indicator, as it is not a measure of effectiveness.

IFC reports key achievements of the GTFP in supporting "critical" economic sectors such as agriculture and energy efficiency. Some 20% of the GTFP supported trade transactions involving agricultural products. However, as with SME reach, this is not a fully informative indicator of effectiveness. The GTFP does not control the type of imported product for which trade finance is demanded, which will be a function of the creditworthiness of the IB and the importer.

While the GTFP had accredited 234 internal CBS by 2012, only 10 banks accounted for 63% of the business. The concentration partly reflects the nature of the industry, which is dominated by 20–30 international banks.

The GTFP had little influence over the local bank's risk appetite among its clients. GTFP had little influence over the IB's and their client mix. IBs may still require upfront cash collateral from their clients, irrespective of whether they have a GTFP coverage or not. There are also concerns the IBs receiving support do not actually require that support. As a result, IEG recommended the SME indicators be supplemented with additional indicators of the profiles of the IBs.

Despite its initial goal to support longer-term trade finance transactions, GTFP guarantees have tenors only slightly longer than the broader market. The average tenor of all trade finance products in the market in 2005–10 was 4.9 months, compared with the GTFP average of 5 months.

The extent GTFP was able to directly leverage commercial bank funding of trade finance was less than expected. IFC had intended to limit guarantee coverage to 75% of the underlying trade transactions at a portfolio level. This limit was not realized, and guarantee coverage averaged 80% of trade transactions.

This result was attributed to factors such as the GFC, more stringent prudential regulations, and the European banking crisis that affected the risk appetite of confirming banks in emerging markets.

The GTFP was able to improve liquidity in times of crisis, it supported transactions in which both the exporter and importer are in developing countries was an objective of the GTFP, and it had helped develop IB capacity.

The GTFP helped IFC develop new business in difficult countries and it had led to long-term investments with 40 new clients. The low-risk nature of trade finance allows IFC to engage issuing banks with risk characteristics that would be unacceptable for its longer-term investment activities. This has allowed it to develop relationships with these banks. IEG noted that while the GTFP may have helped IFC enter difficult markets it is a secondary benefit and does not itself provide a rationale for the program.

The GTFP had been profitable, although not to the extent originally expected. The program is low risk and it had not paid any claims to date. The opportunity costs of the program for IFC were relatively low. Even though the GTFP accounted for 39% of IFC commitments in FY12, it accounted for 2.4% of its capital use, 1.2% of its staff costs, and 0.6% of its net profit.

IEG also briefly reviewed the GTLP and noted It was not clear how much additional finance was mobilised due to the fungibility of funding.

IEG noted there were several areas where there were opportunities to strengthen operations. The system to handle cases of covenant breach among participating banks lacks clarity. Work was being done to strengthen the systems to assess the development effectiveness of the program, but more can be done to address the apparent data reporting and collection burden on client banks **and the difficulty in attributing many of the outcome indicators to the program**.

IFC had started to include the GTFP in its Development Outcome Tracking System (DOTS). The DOTS for GTFP aims to collect and assess information at five levels: (i) the trade transaction level, (ii) the country level, (iii) the confirming bank level, (iv) the issuing bank level, and (v) the beneficiary company level. Inclusion of trade finance in DOTS represents an important effort on IFC's part to try and measure the development outcomes of its short-term trade finance products. IEG questioned whether participating banks would be willing to support these reporting requirements given significant information requirements, which in many cases were not directly relevant to the GTFP's performance indicators.

IEG argued that a programmatic level review that tracks relevant indicators and makes an overall assessment of the program's relevance/additionality, effectiveness, and efficiency may be more useful. IEG proposed more informative indicators would include:

(vi) participation of lower tier banks,

(vii) the degree of country/political risk,

(viii) inclusion of countries in political or financial crisis,

(ix) inclusion of countries with underlying weaknesses in their financial systems,

(x) the extent to which confirming banks increase/decrease their lines of credit,

(xi) the extent to which confirming banks undertake their first transaction with an issuing bank because of the GTFP program, and

(xii) the extent of trade finance that was catalyzed in the longer-term because of a relationship that was established through the GTFP.

The manner in which IFC reports its trade finance activities may overstate their relative magnitude. In reporting overall commitments, short-term guarantee "commitments" are treated in the same manner as long-term loans or equity commitments, even though they have tenors of around 5 months (compared with maturities of generally 7–12 years for long term loans). Moreover, the program accounts for 2.4% of IFC's capital and 1.2% of IFC's staff costs. Alternate methods of reporting—such as a risk weighted approach—might better capture the relative size of the program.

IEG recommended that IFC:

(i) continue to **strengthen the GTFP's focus in areas where additionality is high** and increase the share of the program in high risk markets and where the supply of trade finance and alternate risk-mitigation instruments are less available (eg introducing internal targets for return on economic capital to support optimal pricing of GTFP guarantees, and establishing a comprehensive additionality assessment process for the program);

(ii) **adopt additional methods of reporting volume** that can reflect the distinct nature of trade finance guarantees and provide a better picture of the relative size of the GTFP in IFC **(**ie treat short-term guarantee "commitments" in the same manner as long-term IFC investments);

(iii) refine the means by which **GTFP profitability is monitored and reported** (ie shift from a decentralised regional system to a centralised reporting arrangement, so it is apparent how much, and where profits are being generated);

(iv) review the **costs and benefits of the current monitoring and evaluation framework** (ie replace DOTs reporting requirements with an annual program-level evaluation that includes relevant indicators of additionality and effectiveness) ;

(v) ensure a **transparent process is in place to govern cases of covenant breach**; and

(vi) **enhance the program's ability to meet the demand for coverage of longer-term trade finance tenors**.

IEG indicated that other issues that might be considered included: (i) enhancing information sharing platforms; (ii) investing further in automation of the operating system, (iii) expanding coverage to include trade transactions initiated by public sector companies; and (iv) coordinate trade finance training with other IFC Access to Finance Advisory Services.

2.0 Asian Development Bank (ADB):

ADB prepared an independent evaluation of its Trade Finance Program (TFP) and related technical assistance (TA) from its initial approval in 2003 to the end of 2013.

2.1 Objectives

In 2003, ADB approved the first $150 million TFP. The program objectives were to:

- support trade and enable partnerships between international banks and country banks,
- enhance intraregional trade and borrowing country to borrowing country trade and strengthen country banking systems,
- support small and medium enterprises (SMEs),
- provide countercyclical support in times of crisis, and

- lengthen tenors and expand the currency denominations in which ADB financing could be transacted under the program.

These objectives remained broadly constant over the evaluation period.

2.2 Outputs

The TFP program included the following main products:

- a credit guarantee facility (CGF) to guarantee payment of trade credits issued by local banks in borrower countries to participating international and regional banks,
- a revolving credit facility (RCF) to provide short term loans to local banks that were receiving support under the credit guarantee or risk-sharing arrangement facilities, all without government guarantee, and
- TFP knowledge products.

In 2006 there was a change in scope permitting the use of Risk Participation Agreements (RPAs) to help ADB boost trade volumes. Under the RPA ADB provides a maximum of 50% risk protection against non-payment of financial obligations issued by banks in support of a trade transaction on a portfolio basis, rather than on a transaction-by-transaction basis.

In 2009 there was a second change in scope that referred to program outcomes, highlighted the need for low-income countries to develop links to international markets for trade, and allowed for:

- an extension of the term of operation to December 2013,
- an increase in the overall exposure limit for the program from $150 million to $1 billion;
- an increase in the maximum tenor of loans and guarantees under the program from 2 to 3 years;
- capacity building component, financed with TA with a total value of $6 million; and
- the TFP's first design and monitoring framework (DMF).

In 2012, ADB approved a third major change of scope to TFP program to:

- extend the program beyond its current expiration date of December 2013, subject to reviews by the ADB Board at intervals of no more than 3 years, and
- expand the local currency (LCY) denominations in which ADB financing may be transacted under the program to include the People's Republic of China (PRC) renminbi and the Indian rupee.

2.3 Implementation

TFP started slowly, making relatively few commitments between 2004 and 2008. From mid-2008 onwards, following the global financial crisis, TFP entered into a period of expansion. Commitments initiated under the CGF steadily increased from $12.8 million in 2008 to $1.2 billion in 2013. Despite strong demand for funded trade finance lines from various banks, ADB provided very little RCF support due to higher risk of funded facilities. Total commitments for RCFs peaked at $35.5 million in 2011, and averaged just $15.2 million per annum from 2004 to 2013.

RPAs helped boost the scale of operations from 2006. Risk Distribution Agreements (RDAs) introduced in 2010 to share credit guarantee risk on issuing banks (IBs) in Bangladesh, Pakistan, Uzbekistan, and Viet Nam further increased volumes. Despite significant growth in demand, the utilization of the capital allocation

for the programme remained low. In 2010, following the increase in size of the facility to $1.0 billion in response to the GFC, the average utilization of the program was 33% and the peak utilization was 55%.

TFP operates with a high degree of independence. Issuing banks must pass through a strict due diligence process to participate in the program, and ORM provides an independent risk management assessment and sets limits by bank and instrument. The prescribed procedures for processing TFP transactions is set out in TFP Operating Guidelines and feature rigorous manual controls and counter checks.

TFP has managed to process thousands of transactions with a 24–48-hour turnaround period, and both issuing and confirming banks give the program high marks for its responsiveness in processing transactions. The manual systems put in place to operate a small program in 2003 quickly became inadequate as the program expanded. As of first quarter 2014, the Trade Finance Unit had a total complement of 8 staff and 4 consultants. Consultants were funded with Technical Assistance grants.

2.4 Evaluation

2.4.1 Relevance

With its emphasis on private sector development, regional economic integration, and financial sector development, the TFP aligned with ADB's Strategy 2020. The evaluation concluded there was demand within borrower countries as there was a gap between demand and availability of trade finance, further confirming relevance. Key constraints on availability of trade finance included the lack of a credit rating by IBs, their customers were unrated, transactions were too small, or the perception of customer risk was too high. During the global financial crisis (GFC) in 2008 and 2009, the cost of some trade instruments doubled or tripled in many emerging markets. Reduced availability of trade finance contributed to a sharp contraction in global trade in 2008–2009.

2.4.2 Effectiveness

Most of the DMF targets related to numbers of transactions, CBs and IBs, bilateral trades between borrowing countries, and intra-regional trades within Asia and Pacific countries.

- Support trade and enable partnerships between international banks and country banks,

TFP was working with 69 (active) IBs, 120 participating confirming banks (CBs) and six major international banks that acted as portfolio partners.

- Enhance intraregional trade and borrowing country to borrowing country trade and strengthen country banking systems,

TFP contributed to growth in trade within the Asia and Pacific region. The program was supporting more than $4 billion per annum in international trade.

- Support small and medium enterprises (SMEs),

TFP had supported about 4,700 SME transactions since inception (which exceeded the 2009 DMF target for SMEs) and management reported in 2013 that over 80% of the transactions by number supported SMEs.

- Provide countercyclical support in times of crisis

TPF had increased in size from $150 million to $1.0 billion in 2010.

- Lengthen tenors and expand the currency denominations of ADB financing.

There were no indicators to capture the increase in tenor of trade transactions or the progress made in delivering local currency-denominated TFP transactions in India and PRC.

Management reports indicated TFP results had exceeded most of the 2009 and 2012 DMF targets, and it was successful.

IED did not accept these conclusions. The TPF performance measures provided little information on the attainment of target objectives such as promoting trade finance, particularly for SMEs in poorer countries. While the TFP was supporting trade of $4 billion per annum, which was a very large amount by ADB standards, but it was small as a proportion of total trade in Asia and Pacific.

In 2013 about 10% of transactions by value were with SMEs, but about 53% of TFP funds by value were allocated for large oil trades financed by Tier 1 banks, even though these transactions only accounted for 4% of transactions by number. Tenors had declined over time, in part in response to ADB's risk management requirements. Despite several requests from the market, there been no LCY transactions.

2.4.3 Efficiency

Between 2010 and 2013, TFP on average used about 39% of the resources allocated by ADB to the program. In the same time period, peak utilization of TFP occurred in 2011 at 60% of the program's $1 billion limit. This result implies some 40% of the program limit was unutilised in the last four years. TFP reports an average 70% utilization of its $1 billion limit between 2010 and 2013 by looking at committed (even if unutilized) amounts, with a large difference between TFP committed amounts and the amounts actually utilized (There is no commitment fee for RPA on unused amounts). This under-utilisation creates efficiency losses for ADB. At the same time, TFP had some difficulty using this large allocation due to stringent ADB bank limits for the various TFP instruments. The use of RDAs has provided partial relief from the limits set by ADB's Office of Risk Management.

2.4.4 Additionality/Impact

The TFP had mobilised about $10 billion in commercial co-financing since inception. As money is fungible, it is not clear if the relief the international confirming banks obtained from ADB risk participation promoted trade elsewhere in ADB's borrower countries. The result is much clearer and positive on knowledge products. Through economic analysis on trade finance supply and demand, and backward linkages from trade finance, TFP had made an important contribution to the understanding of the gaps in trade finance and the implications for growth and employment. ADB successfully established a partnership with the International Chamber of Commerce (ICC) to create the Trade Finance Default Register. The ICC Trade Register has become an important source of time-series information to enable ADB's distribution agreement partner institutions assess trade finance risks. TFP disseminates market knowledge to risk. ADB efforts through Technical Assistance to improve awareness of trade finance as an asset class, and to improve regulatory treatment of this low-risk asset class, have had substantial impacts.

2.4.5 Conclusions

TFP has helped address the gap in the market for trade finance, was market oriented, and able to respond quickly to requests. It had been a valuable tool in ADB's countercyclical response to the 2008–2009 global financial crisis. TFP can achieve improvements in performance if it: (i) has a clearer, results-oriented plan; (ii) adequately staffs and operates the program using internal ADB resources rather than relying on external consultants; (iii) automates its transaction processing systems; and (iv) regularly tracks and reports on financial performance and its development results. TFP needs to state its program objectives more clearly. The program should be subject to reviews by the ADB Board at intervals of no more than three years.

3. African Development Bank (AfDB):

3.1 Overview

Trade is a primary catalyst to support growth and poverty reduction. Historically AfDB used special purpose vehicles to provide trade finance, such as Afreximbank and Esatern and Southern African Trade and Development Bank. At the height of the global financial crisis, AfDB's shareholders asked it to provide commercial trade finance directly to SMEs. In 2009, AfDB established the Trade Finance Initiative (TFI) with a size of $1.0 billion.

AfDB established the Trade Finance Program (TFP) in 2013 as the successor to TFI, and place trade finance as a mainstream activity of its operations. TFP carried over the $1.0 billion allocation for an initial period of four years. The program sought to reduce the trade finance gap in Africa by "crowding in" global banks and strengthening local Africa Financial Institutions that are critical to the promotion of trade on the continent. The facility emphasised the promotion of regional integration and intra-Africa trade.

The TFP provided wholesale support to trade finance through the provision of risk mitigation facilities and liquidity support. The bulk of the operations were targeted at low-income countries, African local banks, Small and Medium Enterprises (SMEs) in critical sectors in the agriculture/agribusiness, light manufacturing and intermediate/capital goods in regional member countries.

3.2 Outputs

The TFP consisted of three main outputs:

- **Risk Participation Agreement (RPA)** - These are arrangements under which confirming banks and AfDB share the default risk of a portfolio of trade finance transactions. The RPA gives regional and international confirming banks (CBs) partial cover for their trade finance operations in Africa, with the AfDB typically taking a 50% share of the risk.
- **Trade Finance Line of Credit (TFLOC)** - These are short-term lines of credit are offered to African financial institutions to facilitate their own trade finance operations. AfDB seeks to support financial institutions with a strong focus on developing trade finance. Proceeds from TFLOC enable financial institutions to extend credit support to SMEs operating in either the import or export sectors of the economy.
- **Soft Commodity Finance Facility (SCFF)** - This is a funded trade finance product targeted at commodity aggregators and export marketing agencies for soft and agri-based commodities, such as cocoa and coffee .These organizations, which deal directly with farmers, use SCFF loans to support the agri-commodity supply chain at the grassroots level, leading for example to the increased presale of produce.

AfDB initially signed an unfunded $250-million Risk Participation Agreement (RPA) facility with ABSA - a pan-Africa financial institution with a presence in 12 African countries. Under this 3-year RPA facility, AfDB and ABSA agreed to share default risk on a portfolio of eligible trade transactions originated by African Issuing Banks (IBs) and confirmed by ABSA. AfDB committed under the RPA to assume up to 50% (and 75% in special cases) of every underlying transaction issued by the IBs, where ABSA confirmed the transaction and covered not less than 50% of its underlying risk. Under this structure, ABSA performs the credit risk analysis on the IBs, and originates, processes and monitors the transactions.

By 2016, AfDB had supported cumulative trade of $3.0 billion involving 85 participating financial institutions (FI), in more than 20 countries. Intra African trade accounted for 20% total trade supported. From 2013-

2015 it had approved 21 trade finance facilities comprising 13 RPAs, 11 TFLOCs, 1 SCFF and 2 Equity investments.

3.3 Survey

There has not been a formal evaluation of AfDB's TFP, but it did prepare a series of surveys in 2014 and 2017 to gain a better understanding of the magnitude of the trade finance gap, and critical challenges facing financial institutions providing this type of finance. The survey estimated the trade gap was USD90 billion per annum, and SMEs were the main sector under represented. There was limited intra-African trade. Constraints varied across regions, depending on whether countries fragile and non-fragile, and oil importing or oil exporting. The survey recommended that policies to reduce information asymmetries, facilitate sharing of credit information, and improve availability of collateral.

Annex 5: EBRD TFP Evaluations and Reviews

1. TFP Evaluated Performance

EVD has prepared two evaluations of the TFP covering the periods of 1998-2002, and 1998-2008.

1.1. First EvD Evaluation - Operations 1998-2002

Management prepared an appraisal of the TFP in 2002, which showed how EBRD had helped establish a network of PBs to provide guarantees and liquidity. By 2002, EBRD's TFP network consisted of 63 IBs in 21 COOs and 144 CBs in 50 countries. From the start of the TFP program, it had processed 768 transactions with a total value of €650 million, an average guarantee amount of €0.93 million, and a tenor of 8.9 months. There had not been any claims against EBRD, indicating the product was low risk. TFP had generated an average yield of 2.95%, which was high relative to other longer tenor instruments offered by EBRD. Management rated the TFP successful.

EVD prepared an evaluation of TFP in 2003 against EBRD's TI objectives, Additionality and Bankability. EVD largely concurred with management's assessment, rating TFP "Successful".

TIs and the associated number and volume of transactions was positive. TFP demonstrated the provision of guarantees to cover local IBs could improve their ability to procure imports, and develop standards and institutional capacity to process these types of transactions. While performance was positive, EVD noted the TFP only reported the number of transactions and volumes, and did not define specific measurable TI or operational objectives or milestones to evaluate performance in areas such as:

- intra-regional trade;
- SME exporters and importers;
- planned network of IBs and CBs;
- institution development impacts on IBs; and
- TFP's contribution to sector and country strategies.

The TFP fell short of its main objective of helping to restore intra-regional trade, or convincing banks in the region to supply confirmed LCs to local exporters. Most TFP guarantees linked FSU importers with Western exporters and their CBs, and only 8% of FSU PBs supported intra-regional trade. Despite significant intra-regional trade, no FSU bank was confirming LCs issued by local IBs, and all of this trade relied on 100% cash prepayments.

EVD noted the TFP was a transaction-based facility that worked from the bottom up, and needed to be complemented with "top-down" national-level transition tools such as privatisation and regulatory reform for sustained change. TFP could not deliver systemic reform just by supporting PBs.

Despite these limitations, EVD concluded TFP was having a positive impact on international trade, and it provided an important financial crisis safety net for trade payments. TFP helped foster transparency and develop the Society for World-wide Interbank Financial Telecommunications (SWIFT) payment system, Union Customs Code (UCC) and Basel Capital Accord standards to promote international trade in its COOs.

EVD noted **EBRD could take further steps to mobilise trade finance and increase risk transfer to third parties.** Operations could focus on guarantees as they consume less capital than funded RCF, and transfer

risk to third parties where possible. Less than 25% of TFP's guarantees involved risk sharing by CBs or others (mainly donor funds).Only two IBs had acted as CBs and confirmed LCs, indicating they are not learning through the use of the TFP guarantee. Only 12 IBs had entered into risk-sharing transactions with TFP. Heavy use of the TFP by an IB should lead to graduation through risk sharing.

There was space for more co-financing, and selling down existing risk exposures. TFP could develop a portfolio management strategy to avoid excessive risk concentrations. New instruments could be used to reduce risks such as: re-insurance, structured credit derivatives, and credit-linked notes issued by EBRD. Structured credit linked notes could potentially be purchased by IBs, amongst other investors.

Additionality: Management's justifications for attainment of this criteria were based on: (i) availability of longer tenors (1-3 year maturity), compared to 90-180 days from commercial banks; (ii) TFP's ability to support larger transactions than commercial banks; and (iii) the creation of the TFP network, which would not otherwise have existed. EVD accepted management's view that IBs and CBs would not use the TFP if it were not additional.

Bankability: EVD confirmed that TFP projects were profitable. A Return on Risk Capital model showed a one-year TFP risk provided a strong risk-adjusted return on capital compared to similarly rated five-year loans. The short tenor and contingent nature of the payment risk made TFP guarantees less risky than loans. The IB would have to default on its LC payment, before the CB could call the EBRD standby LC. Loans, on the other hand, expose EBRD to unconditional risk on the PB. Guarantees could also provide an effective use of EBRD's economic capital. If EBRD's provisioning policy considered tenor, a one-year exposure would require about 20% of the provisions of a five-year loan.

EVD recommended inter alia that a 3-year business plan be prepared for TFP. The plan should set out operational and TI objectives and benchmarks, with specific and measurable performance milestones that differentiated between guarantees and cash advances. The plan should identify resource needs for activities such as:

- marketing to global banks;
- co-financing (mobilisation, risk sharing) using the A/B structure and other instruments;
- periodic audit (TFP as a business unit had never been audited);
- IT platforms (e.g. Summit prioritisation) to support operations that currently required heavy manual processing by various teams; and
- staffing needs.

There was no Management Action Plan in EVD's files, or on Boldnet following on from the evaluation recommendations.

1.2. Second EvD Evaluation - Operations 1999-2008

The second evaluation prepared in 2010 found there had been no change to the TFP to reflect EVD's recommendations on the re-specification of targets for TFP objectives and TIs, or the development of a strategic plan. Performance benchmarking continued to be based on activity (volume) rather than programme objectives or impacts. TFP was not part of any explicit policy framework or sector strategy. TFP operations were conducted in accordance with general objectives and statements on its broad modus operandi. TFP was not subject to regular TIMS reviews. As a result, TFP was not amenable to ex post evaluation, and the assessment needed to focus on impacts realised, relative to wider EBRD objectives.

Since the previous evaluation, TFP had grown nearly 20x, with business volume increasing from €51 million in 1999 to €915 million in 2008. ABI was €5.1 billion in 2008, indicating TFP was equivalent to about 18% of bank direct financing in that year. Within this total, cash advances had increased from €0 in 1999 to €581 million in 2008 (64% of total volume). There had been a gradual increase in the level of intra-regional trade, rising from 1.5% of total business volume in 1999 to 29.1% in 2008. This trend accompanied an increase in the geographic spread of TFP, although the volume remained highly concentrated. Russia, Ukraine and Kazakhstan accounted for 71% of TFP activity in 2008.

Following the start of the GFC in 2007 there was a shift away from the TFP guarantee towards cash advances, and downward pressure on pricing. These advances were often applied one or two steps downstream from the actual trade, and were starting to look more like interbank funding for working capital. In part, this development was due to a greater willingness of CBs to accept COO IB risk. There was increased availability of cover for LCs from private credit insurers and Export Credit Agencies (ExCAs), particularly in key TFP markets. As a result, EBRD had moved to the higher risk end of the trade finance spectrum in the form of cash advances, increasingly for post LC financing.

EVD evaluated the program with the OECD DAC criteria of relevance, effectiveness, impact and efficiency (financial performance), and derived a rating of "Partly Successful".

Relevance was Satisfactory, but Additionality had declined. The study concluded the facility's high initial relevance had declined, apart from a brief period following the GFC. Trade finance in the region had undergone significant growth since the inception of TFP. This change reflected factors such as economic development in EBRD's COOs spurred by growing consumer spending and the eastwards movement of Western production capacity. Western banks now owned a large part of the banking sector of Central and Eastern Europe (CEE) and South East Europe (SEE). International banks and other providers of risk cover were very active in EBRD's main TFP markets. Coupled with a lack of transparency over EBRD pricing, these developments provided strong evidence additionality was declining in the period leading up to the GFC in its main TFP markets. There was no retrenchment by TFP in response to declining additionality.

Effectiveness was Marginal. It was difficult to evaluate the extent TFP fulfilled its objectives as they were so vaguely worded and open to interpretation. The indicators for assessing TFP effectiveness were input/output measures that gave little guidance on effectiveness and the degree of achievement of programme objectives. TFP had helped EBRD to develop institutional capacity in IBs, but it did not achieve two of its objectives: fostering trade, or providing liquidity. Given the breakdown in the linkage between trade and EBRD support, and the small size of the TFP, relative to trade volumes in COOs, it was difficult to make a case the program was fostering trade, or enhancing liquidity.

Impact was Satisfactory. TI of guarantees and capacity development were satisfactory to good, but these outputs were of minor importance. Cash advances was the primary TFP product over the three years preceding the evaluation, and it only had marginal TI. TFP was successful if measured in terms of growth in volume, but there was no link to TIs. TFP activities occurred outside any strategic framework and were piecemeal in nature. The transition approach was largely undifferentiated between programme participants (importers, exporters and their respective banks), direction of trade (import or export), or underlying goods.

The key TFP TI was the development of bank linkages and subsequent deepening of the commercial relationships providing the guarantee product. With the stabilisation of the bank population and the completion of the network, the level of guarantee transactions had declined (although there was an upswing during the financial crisis as CBs sought risk cover). Skills transfer was seen as an important source of TI, but it related to guarantee instruments. Cash advances were only funding lines that provided little scope for transition due to the low level of conditionality required by EBRD.

Efficiency, in the form of financial performance was rated satisfactory. Financial returns were broadly in line with expectations (subject to credit losses that had recently started to arise), although in practice there was no defined target. Returns before provisions had peaked in 2006 at €9.1 million, and declined to € 3.9 million in 2009. Once provisions were included, returns were substantially negative, falling to -€12.1 million in 2009. The rapid growth in volume and the consequent scale of the operation was starting to create non-financial risks for EBRD in areas such as integrity, AML and environment. The procedures for managing these risks were not clearly defined, and dependent on the capacity of PBs.

There were opportunities for improvement in TFP operations. In particular, a TFP strategy was required with indicators linked to TI objectives. There was evidence TFP was used by FI as an "on-off" gap filler to meet its departmental scorecard ABI volume targets. TFP is a high volume, low conditionality product, and it should be a distinct business line, rather than being bundled with other FI products. There was a need for more clarity around the use of TC to support trade facilitation initiatives, and opportunities to introduce some element of cost recovery.

EBRD conditions for the use of guarantees and SME credit lines needed to be clarified and integrated to avoid risks of crowding out the guarantees, and breaking the link between EBRD support and promotion of trade. SME credit lines do not require PBs to provide substantiating trade documentation. As a result, banks will always utilise credit lines before using TFP guarantees. Delegations of authority by the Board required clarification as cash advances over US$20 million required Board Approval, but guarantees, of any size, did not. The gaps in EBRD requirements for credit lines and guarantees in areas such as environmental compliance and AML needed rectifying. TFP should be subject to monitoring in line with other frameworks.

Oversight arrangements were required to monitor how TFP instruments are priced. None of the internal approval documents for TFP facilities contained any discussion on how the pricing for an individual bank facility was determined. For guarantees, the TFP team conducts a telephone survey on a quarterly basis amongst PBs (both IB and CB) and submits a pricing range to Credit for discussion and sign-off. This survey data was not documented, or corroborated by independent market quotes. As a result, there was no evidence to confirm that TFP was maintaining additionality, as reflected in premium pricing

EVD recommended, inter alia, that EBRD:

- Fully restate TFP's strategy and redesign operational and performance parameters and monitoring processes;
- Develop a strategy and implementation plan for TFP TC activities;
- Redesign the TFP product around the revised strategy, and clearly demarcate it from other Bank products;
- Review terms of financing under the TFP to ensure use of proceeds for trade purposes;
- Establish a task force to unify the rules, authorities, limits and monitoring processes in a single reference document for the multiple levels of delegated authority that exist for TFP;
- Rectify gaps in environmental definitions;
- Upgrade AML procedures for TFP;
- Introduce a process of monitoring TFP in line with other frameworks; and
- Overhaul the TFP approach to collecting and sharing market price information.

Management agreed to the key recommendation to prepare a strategic review and enhance planning in the use of TFP TC.

Management did not accept the recommendation to disaggregate TFP from other FI products. There were operational performance targets for all groups in FI, including TFP, which were set annually as part of the FI Business Plan. Management noted "the on-off approach referred to by EvD was in fact a reflection of the uncertainties surrounding the Bank's business which can impact on all team and Business Groups, not just TFP and FIBG. Management did not believe any business of the Bank can be reasonably ring fenced as the EvD Report suggested, without leading to loss of flexibility in achieving overall business objectives."

Management agreed there was a need to review delegation limits and procedures for dealing with projects with high E&S risks. Management did not see any need to revise AML procedures, which already exceeded international standards. Management noted TFP was subject to standard monitoring procedures including an annual Portfolio Management Review (PMR) report to Credit that provided extensive information on quality and regional distribution of the TFP portfolio and performance. In addition, the TFP team provided half-yearly reports to the Board. Management did not see any need to overhaul the TFP team's self-validation pricing process.

2. Follow Up on EVD Report and Subsequent TFP Reforms

2.1. Audit Committee, 2010

The Audit Committee reported to the Board in February 2011 and noted it had considered the EVD report in July 2010 and Management's response in October 2010. Management indicated it would undertake a comprehensive Strategic Review of the TFP for submission to FOPC.

The Audit Committee directed ***the review to ensure the TFP was aligned with EBRD's transition mandate, based on clear transition objectives, indicators and benchmarks. These parameters should allow programme performance be measured against the Bank's mandate. The main objective should be to strengthen the capacity of PBs to carry out trade finance and to increase their participation in trade finance activities***. Benchmarks should allow EBRD to determine when PBs have reached the stage where they are able to continue trade finance activities without the need for further support from EBRD, allowing it to exit.

The strategic review should also address the following points:

- **Clarify what type of products are permitted under TFP**, set out the objectives and limits of such revolving transactions, and describe the mechanism for calculating the necessary amount of funding based on the underlying trade activities;
- **Describe clearly the control mechanisms that are in place for each product, particularly for revolving facilities, to ensure the link to the underlying trade cycle and c**ompliance with EBRD's policies on E&S and AML policies;
- **Ensure the targeted use of technical assistance to increase capacity within PBs** with a view to them being able to continue to participate in trade finance activities without further support; and
- **Review and clarify the limits on the delegated authorities for each product** against the background of the Bank's usual practice with regard to delegated authority under its FI facilities.

2.2. Strategic Review, 2011

Management submitted a Strategic Review of TFP to the Board in March 2011. The review noted TFP was significantly different to the Bank's typical project finance approach and specialist systems and procedures were required to allow EBRD to offer a product suited to the demands of the fast-moving trade finance business and to process a large number of small transactions.

Management saw the TFP as serving a dual purpose of: (i) providing a low risk instrument that provides EBRD with the opportunity to develop a relationship with clients; and (ii) it allowed EBRD to provide support to SMEs, in a similar way to SME Credit lines. PBs valued the TFP as it allowed them to finance transactions where it would be difficult for them to participate directly, and it offered a seal of approval for smaller banks. As a result, “a simple "build up capacity and graduate" approach was not suited to the reality faced by the PBs in the region, where a consistent commitment of commercial banks to support trade is not present”.

Management proposed the following sources of TI to ensure the continued relevance of TFP:

- adding and developing new PBs, particularly in less developed markets and regions;
- continued knowledge and capacity building for PBs to enable them to remain active in the market; and
- providing consistent risk and liquidity support for PBs to assist them build sustainable trade finance businesses where there are gaps in the commercial bank coverage.

Programme TI benchmarks - would focus on average size, tenors, the proportion of intra-regional transactions, proportion of Early Transition Country (ETC) transactions, TC and training levels and development of new lines with commercial banks. Business volumes would not be as important as the other benchmarks, and they would be linked to market gaps.

Resource management. Staff numbers in the TFP team would be increased to mitigate operational risks in areas such as AML. The paper proposed the Framework Limit of €1.5 billion be re-affirmed by the Board. It was recommended that Framework Tenor Limits remain at a maximum of three years for both guarantees and cash advances, apart from intra-regional and export guarantees, which would be extended to five years, subject to individual PB risk considerations. TFP limits above €10 million for new PBs would be presented to the Board for approval on a No-Objection basis. Cash advances over €20 million would require Board approval, in line with current practice. Guarantees over €20 million would require Opscom approval. The Board would receive a short note for information on any such transaction. The delegation framework would be supported by semi-annual TFP reports, and the annual FI Report prepared for the Board.

2.3. TFP Extensions in 2013 and 2016

In June 2011 the Board approved the updated objectives, enhanced transition impact benchmarks and an extension of the period of operation of the TFP framework facility until 30 June 2013. In 2013, the Board approved updated TI benchmarks, maintenance of the €1.5 billion limit, and an extension to June 2016. It was noted that TFP sat under EBRD’s Financial Sector Strategy, where the primary objective was “to deal with the legacy of the crisis and support the development of more sustainable financing of the real economy”. TFP’s TI was defined as arising from: (i) market expansion, and (ii) Transfer of skills. Within this context, the TFP objectives were re-stated as follows:

1. **Fill the market gaps and provide continuity of support for trade** – the primary objective would be to ensure continued liquidity for its clients, irrespective of market conditions, and new capital requirements for commercial banks under Basel III;

2. **Assist PBs to establish relationships with international banks** – this would no longer be the prime objective as there were only a small number of new PBs joining the network each year;
3. **Strengthen the trade finance capabilities of PBs –** IB trade finance skills need to be continually refreshed and updated;
4. **Assisting PBs to compete against dominant state owned banks –** TFP would focus on private sector banks;
5. **Focus on maximising impact on Bank priorities** – TFP would target transactions that complemented the Bank's wider TI efforts such as energy efficiency, and strengthening exporter to importer relationships, while ensuring the commercial integrity of the TFP was maintained; and
6. **Support the development of factoring services.**

Guarantees would remain the main focus of the program. Cash Advances was expected to be an important part of the TFP as it was the preferred method of financing trade in ETCs, and in practice it is the most common method of financing trade, particularly for fast moving goods and services sold on a repeat basis. Management flagged its intention to include TC in the TFP results framework. Management presented a table with 26 indicators that would be used to monitor performance to ensure TFP remained aligned with TIs.

In 2016, the Board agreed to extend the TFP to 2021, to align it with the Financial Sector Strategy, maintain the €1.5 billion limit, and update the TI benchmarks. The new TFP strategy would focus on more challenging regions with larger transition gaps, such as the ETCs, SEMED and smaller regional players in more developed markets, and introduce new products such as the "Green TFP". The TFP would report to the Board through an Annex to the FI Annual Report. The TIs and the strategic objectives approved in 2013 were retained, with the exception of the fourth objective of focusing on private banks. The TFP had started to engage with state banks as they were often the only parties active in the trade finance market in some of the more challenging countries. The number of benchmarks was reduced from 26 to 16, and they were recalibrated to reflect the objectives presented in the new strategy.

2.4. Internal Audit Review 2018

Internal Audit Department (IAD) prepared a review of the TFP procedures and controls in 2018. The focus of the study was the procedure for setting credit limits with PBs, approving individual transactions, TFP pricing, and adequacy of TFP reporting to OpsCom and the Board. On the basis of the review, management agreed to establish financial performance tracking measures by 2019, share the results of TFP pricing reviews with Risk Management and inform OPsCOm. Management would investigate the feasibility of calculating profitability based on accruals, rather than cash. IAD recommended that RCAs be revised to introduce a zero floor to mitigate costs of sub-zero EURIBOR rates on uncommitted facilities. The adequacy of credit risk mitigation arrangements of PBs would be reviewed with Risk Management and risk sharing development agencies to determine if any of them should be excluded from the TFP.

2.5. Proposal to Increase TFP Limit 2019

In November 2019, Management recommended to the Board the TFP limit be increased from €1.5 billion to €2.0 billion. It was recommended the maximum tenor on TFP guarantees on exports from COOs and imports of GET technology into COOs be extended to five years. The volume of outstanding transactions with tenors greater than three years would be limited to €300 million. No other limits, such as the number of transactions, transaction amounts or countries of origin or destination, would apply.

TFP operations was particularly strong in 2018, and there was a robust pipeline for 2019 in countries such as Greece, Lebanon, Egypt, Ukraine and Uzbekistan. There were concerns the current limit of €1.5 billion was too restrictive, and an increase was needed to ensure the programme had sufficient capacity to meet current and future demand. The Bank wished to expand operations by increasing the number of new PBs, and the limits on existing PBs. The increase in TFP tenors would support longer tenor GET transactions where surveys indicated unmet demand and opportunities for technology transfer.

An increase in the TFP limit and length of tenors for guarantee instruments for selected transactions would contribute to the Resilient and Integrated transition qualities. The TFP would enable a greater number of PBs to expand their trade finance operations and support high priority trade transactions, such as exports and import of GET compliant technologies.

Companies in the EBRD regions often could not afford to import, produce and export GET technologies. According to Management, some TFP PBs preferred to finance imports of cheaper machinery and equipment, which often requires less financing and shorter tenors than best available GET technologies. The longer tenors of the TFP RCAs would reduce the annual debt servicing costs of more expensive, but higher quality GET technology.

The Programme would continue to focus on support to: (i) geographies with largest trade finance gaps, including ETC, SEMED, and countries recovering from crises; (ii) small and medium size banks, (iii) high priority trade transactions, including intra-regional, MSME-related, trade in energy efficiency equipment and services, including Green TFP, and (iv) further development of factoring services. TI benchmarks would be updated in 2020 in the context of the new transition impact assessment methodology that would be introduced for the TFP in that year.

Annex 6: TFP Results Framework.

TFP Monitoring Benchmarks	**Actual**	**(successful targets highlighted in yellow)**								
	2010	**2011**	**2012**	**2013**	**2014**	**2015**	**2016**	**2017**	**2018**	**2019**
Market expansion : assist banks to develop relationships with foreign banks										
Average Transaction amount, mln €	0.61	0.64	0.59	0.6	0.7	0.8	1.1	1	1.09	1.24
Number Intra-regional Transactions in % of all Transactions	22%	22%	24%	25%	25%	25%	32%	35%	34%	37%
Number ETC Transactions, % of all Transactions	35%	59%	58%	47%	45%	48%	34%	25%	30%	27%
Number of Transactions in ETCs and other countries with significant TF gaps[2], % of all Transactions	71%	76%	73%	80%	80%	83%	95%	93%	97%	96%
Percentage of number of transactions with state-owned banks	11%	2.6%	2.5%	3.0%	3.0%	3.0%	9.3%	8.1%	7%	12%
Percentage of number of transactions with small/regional banks	71%	73%	83%	79%	81%	86%	75%	62%	60%	47%
Percentage of risk shared by third-party risk participants	15%	18%	16%	11%	8%	12%	5%	6%	10%	14%
Number of Green TFP transactions, % of all Transactions	#N/A	#N/A	#N/A	#N/A	#N/A	18%	16%	9%	11%	14%
Number of factoring facilities signed and utilised	3	1	1	4	8	6	5	5	3	5
Market expansion : capacity building of PBs										
PBs in ETCs: TF Volume carried out using unsecured TF limits from commercial banks, % to total TF Volume	#N/A	#N/A	#N/A	#N/A	#N/A	75%	72%	#N/A	#N/A	#N/A
PBs in non-ETCs: TF Volume carried out using unsecured TF limits from commercial banks, % to total TF Volume6	#N/A	#N/A	#N/A	#N/A	#N/A	90%	90%	#N/A	#N/A	#N/A

Transfer of skills: strengthen the trade finance capabilities of participating banks

Number of bankers who have successfully attended trade finance training courses organised under the programme	250	660	530	554	312	582	651	1034	1147	530
Number of bankers who have successfully gone through e-learning courses and obtained ICC certificates	#N/A	#N/A	#N/A	84	76	87	128	88	66	122
Number of bankers who have successfully attended factoring training courses or were given (bank-level) hands-on TFP training	#N/A	#N/A	#N/A	0	54	35	104	41	31	60
Number of bankers who have successfully completed KYC/compliance training course	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	329	305
Number of PBs using SWIFT or similar centralised platforms for KYC due diligence	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	#N/A	90	90	91

Notes:

[1] Smaller / regional privately-owned banks in Russia, Western Balkans, Romania, Bulgaria, Turkey and all privately-owned banks in Ukraine, Kazakhstan;

[2] Large privately-owned banks in Western Balkans, Romania, Bulgaria, Russia