SPECIAL STUDY

EBRD Trade Facilitation Programme Management Comments

European Bank for Reconstruction and Development

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EBRD EVALUATION DEPARTMENT

Executive Summary

- Management would like to thank EvD for this study. The EvD study provides a comprehensive overview of the activities of the Trade Facilitation Programme (TFP) and Management welcomes the opportunity to re-affirm the direction of the Programme over the coming years.

- Management believes that before embarking on a review of TFP it is important to underscore the role that the Programme has played and to understand how it has evolved over time. Trade was recognised at an early stage as a key driver of transition and the Bank has systematically sought to support trade activity in the region. The TFP has been one of the Bank's most successful frameworks, supporting more than 27,000 trade finance transactions since 1999 and recognised by clients, confirming banks, trade specialists and other IFIs as a flagship product to support the private sector in the EBRD Regions. It is testament to the reputation of the TFP that a number of other IFIs, including IFC, ADB, IDB and AfDB have modelled their own programmes on the EBRD Programme, directly replicating many of its key elements.

- Management also notes that TFP has evolved and improved since its inception, reflecting the lessons learnt (including those from previous evaluation studies and internal audit reports) and experience gained in implementing the programme. After an unsuccessful start in 1994, the TFP was restructured in 1999 to reflect commercial reality and client needs. The Programme has continued to evolve as markets developed and changed. As one of the more commercially driven products offered by EBRD, TFP relies on professionalism, responsiveness to clients' needs and relevance in the market place to establish and maintain its high reputation. In terms of its ability to process large numbers of small transactions in an efficient manner, the TFP is unique in the Bank's product offering. The nature of the business and, in particular, the requirement for fast transaction turnaround does not always sit easily with the Bank's traditional project finance-type approach. Refinements have been made over the years to enhance procedural aspects of the TFP and reduce risks. The latest of such adjustments were made in 2011 and 2016, after studies from Internal Audit in 2009 and the Evaluation Department in 2010.

- Management notes that the study gives credit to certain positive achievements of the Programme, not least the positive client feedback and the acknowledgement of multiple factors that impede the development of trade finance in EBRD region. The study also raises some critical issues and recommends changes to the way TFP operates. Recommendations include: i) prepare a Business Case for TFP for discussion with the Board, that analyses options for new products and markets, institutional arrangements for meeting the needs and TC requirements; ii) present a TFP results framework that is based on a Theory of Change; iii) present to the Board a review of governance for pricing of finance products (including TFP); and iv) transfer responsibility for mobilisation of the TFP portfolio to Loan Syndications.

- While Management partially or fully agrees with recommendations and welcomes the opportunity to strengthen TFP strategically and operationally, it disagrees with some assertions made in the study. In particular, this relates to the study's assessment of the Programme's efficiency, comparison of its profitability, and the relevance and effectiveness of the TFP's training. It is also the management's view that the study could use more relevant comparators and benchmarks to inform the findings.

Management comments focus on the EvD study recommendations. Further detailed comments provided at the draft stage were incorporated by EvD in this final version of the study.

Study Recommendations:

Recommendation 1: *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*

Management agrees with this recommendation. Management agrees to outline a business case for TFP in the Programme renewal document and present it for Board approval in June 2021. In this document the team will articulate the key strategic objectives, provide examples of innovative solutions and products that the TFP is working on and will highlight the anticipated TC requirements for a medium-term horizon.

Recommendation 2: *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*

Management agrees with the recommendation. Management agrees to elaborate a Theory of Change (ToC) when describing transition impact and targeted results of TFP in the Programme renewal document for Board approval in June 2021. In line with action plan developed for addressing findings from the Kirk report (and recommendations made by EvD on improving evaluability of transition qualities), the impact pathways of TFP will be aligned with, and discussed in the context of, theories of change for the relevant transition qualities (namely, Integrated, Resilient and Green). The Programme renewal document will also introduce a revised TI assessment and monitoring approach to TFP and a revised results framework with outputs and outcomes (including a measure of increased trade finance volumes of partner banks), addressing the findings in the study. The TI scoring rewards allocation of resources towards countries, banks and firms that face the biggest trade finance challenges, with further emphasis on promoting high TI value transactions, such as exports, import of machinery and raw materials, factoring, Green and other economically essential trade.

Management maintains that given substantial attribution issues, the results frameworks on project and programme level focus on outputs (training and TFP transactions indicators) and outcomes (increase in overall trade finance volumes of partner banks). Increase in trade finance via commercial banks is one of the channels to support increase in trade. While a causal link is established in the narrative through ToC, the impact measures (such as increase in the overall trade) are not part of results frameworks for TFP (or similar programmes, frameworks and projects). These are measures of countries' progress in trade integration that are tracked through the annual ATQ and used as context indicators in the relevant country strategy results frameworks. Management notes that the study discussion of the effectiveness and results by linking TFP transactions to overall trade increase appears simplistic and does not consider the counterfactual (e.g. arguing on the basis that the trade in CA is flat). The study also states that there were no targets set, yet it then discusses how TFP programme performed against targets.

Recommendation 3: *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*

Management partially agrees with the recommendation. Management agrees with the importance of maintaining financial discipline while pursuing strategic transition objectives of the Bank. As a result, Management is already in regular dialogue with the Board regarding debt profitability and debt return trends. On a transaction level, this is facilitated by the disclosure (and where required discussion) of project specific IPM / RAROC results. On a portfolio level, this occurs through periodic discussion of RAROC and debt return trends (see e.g. Information Session: RAROC and 2019 debt return trends SGS20-224). Finally, in terms of strategic objectives, this is tackled as part of corporate scorecard review and approval (see e.g. Review of Corporate Scorecard BDS20-147F). Aggregate return on required capital deployed in Banking operations already forms part of this scorecard.

Equally, Management recognises that financial return, while an important metric to ensure financial sustainability of the Bank, cannot become the main driver of transaction specific decisions. The Bank's investment strategy is driven in equal (or higher) measure by pursuit of its mandate, strategic objectives to engage in priority areas (such as green or SME finance), as well as the geographical scope given to the Bank by its shareholders. Management strongly believes that the current approach allows the Bank to balance these priorities correctly, ensuring that aggregate financial results support a wide range of activities, and product/project specific returns, while carefully considered at a transaction level, do not become a dominant factor of each investment decision.

Management intends to continue with the current approach without any further changes.

Specifically in relation to TFP, Management will review the current process, methodologies and tools used to price trade finance transactions with a view to identify and execute opportunities for improvement. It is envisaged to conduct such a review with the help of an independent industry expert.

Recommendation 4: *Transfer responsibility for mobilisation of the TFP portfolio to Loan Syndications.*

Management partially agrees with the recommendation. Management agrees to intensify work to expand the relationship with TFP risk-off-takers such as insurance companies and risk-sharing partners. Management believes that the most effective way to do so would be through an enhanced cooperation with the Loan Syndications team, considering the current structures in place. The joint effort will be a more effective approach compared to a transfer of responsibility for mobilisation of the TFP portfolio to Loan Syndications, allowing a more optimal use of resources and expertise in both teams. Notwithstanding the sought optimal resource allocation, a significant expansion of relationships with new TFP risk-off-takers will require additional resources to support this effort. These would include: an additional principal banker level employee in TFP and an additional principal banker level employee in the Loan Syndications team responsible for generating new and managing existing relationships with risk-off-takers; and an additional principal level risk manager for on-boarding and monitoring of the counterparty risk of the risk-off-takers.