BUSINESS PLAN (2018-2022)

The new Business Plan (2018-2022) which was approved by the Board of Governors of the ECO Trade and Development Bank (ETDB) during its 17th Annual Meeting held on 28 June 2018, in İstanbul provided an opportunity to review achievements gained during the past years and define the strategic road map of the Bank for the coming years. Accordingly, the Bank would advance its vision and translate the strategic objectives into goals over the coming five-year period.

The ETDB has been established with a vision to becoming the financial pillar of economic cooperation among ECO member states fostering sustainable economic development and integration. Within this vision, the Bank has successfully started its operations by the last quarter of 2008. It is firmly moving forward to effectively enhance its support to the sustainable development of the member states. As an international financial institution of the ECO countries, it has been able to built-up an efficient organizational structure and sound internal regulatory framework to improve its development effectiveness, governance and additionality. The key policies, rules and regulations that have been adopted in this respect are all aligned with the best practices of other peer institutions and the needs of member states. In this respect, accountability, transparency and adherence to sound banking principles have always been placed at the core of its action plan.

The Bank has a sound corporate governance structure managed through well-defined responsibilities distributed to the Board of Governors, Board of Directors and Management Committee. All powers of the Bank are vested in the Board of Governors, which consists of one governor and one alternate governor appointed by each member state. With the exception of powers specifically reserved to it under the Articles of Agreement establishing the ETDB, the Board of Governors has delegated its powers to the Board of Directors, whose members are also appointed by each member state.

Moreover, the essential committees (e.g Audit Committee, Credit Committee, Asset and Liabilities Committee, etc) are fully functional and dedicated to fulfilling respective responsibilities for sustainable development of the operations. The ETDB’s Corporate Governance Policy, Codes of Conduct and staff regulations also strictly enforce all measures to prevent fraud and corruption in the operation of the Bank. In other words, the ETDB, as a policy, does not work with any institution or an individual who is involved in any illegal, immoral or unlawful activity. The financial statements of the Bank are prepared according to International Financial Reporting Standards (IFRS) and audited by independent external auditors.

In particular, the Bank would observe in all its operations compliance to the applicable rules and regulations regarding procurement of goods and services and national legislation of the member states. Act in accordance with the provisions of the international conventions and agreements that restrict or prohibit use, proliferation, generation, or otherwise disfavour operations that facilitate dealing in goods and services that pose a threat to health and safety of humans, other species, or the environment in general. The Bank maintains a Negative List of Goods (including the Bank’s Environmental Exclusion List), which is regarded as restricted goods and services that stand excluded from financing in all its operations. Goods and services
that have the potential of leaking into illegal use or, as a result of manufacturing, handling, storage or trade pose a threat to health and safety, security, or present an intrinsic risk for the environment are specifically excluded from Bank financing. The exclusion list inter alia include weaponry, ammunition, military goods, or goods that may be directly used for military purposes, tobacco, alcohol, narcotic drugs, psychotropic substances, wildlife products radioactive materials, including radioactive waste, etc.

The Bank has also made excellent progress in focusing its activities on enhancing risk management perspective. Although, the capital resource of the Bank is very modest compared to development finance needs of the member states but operations are developing to maximize the lending capacity and to maintain strong financial position whilst keeping the high credit risk standards. The relevant policies are established for the identification and assessment of the various risks that the Bank may be exposed to and also to set up appropriate risk limits and controls.

The Bank maintains an effective internal credit risk rating model and assigns a risk score to all counterparties in order to actively identify and manage risks. Overall, the Bank ensures firm adherence to enterprise-wide risk management approach and avoids practices which are detrimental to its institutional reputation and financial position. To this end, the Bank protects itself from relevant risks by strongly continue to follow rigorous AML-CFT and KYC requirements and training its staff accordingly. In addition, the Bank ensures that the borrowers conform to Bank’s prudent procurement rules consistent with general principles of competition, transparency, fair treatment, economy and efficiency.

The global economic environment is largely defined by the synchronized recovery which presented significant growth in global economy standing at 3.8% in 2017 and it is forecasted to remain at same levels in coming two years. The global trade has started to pick as well. The global merchandise trade grew at a rate of 4.7% in 2017, which represents a substantial improvement from the modest increase recorded in 2016. The larger threat is posed by increasing trade tensions and the possibility that we enter a sequence of unilateral policies and geopolitical tensions, all of which generate uncertainties for sustainable global trade and GDP growth.

As the normalization of monetary policy in major economies gains momentum, financial markets may be subject to corrections and volatility. In emerging economies including ECO countries, the prospects for tighter global liquidity conditions could reduce capital flows, leading to higher borrowing costs, currency depreciation and decline in equity prices. This could adversely impact banking and corporate sector balance sheets as well as the capacity to roll over debt. In addition, major escalation in inward/protectionist measures and geopolitical developments could weigh on economic development strategies of the ECO member states. This delicate outlook requires good planning and sustaining favorable macroeconomic conditions.

The positive developments in the ECO region are not independent of the recent global growth momentum. All the ECO member states witnessed positive GDP dynamics in 2017. The real GDP growth for the ECO region was realized at 5.5% in 2017 which was slightly lower than the 2016 growth print of 5.8%. With the improvement in oil and commodity prices, investment and prudent reforms, the
economic activity gained a solid footing across the region. Total public debt of the region reached USD 709 billion as end of 2017 which amounted to 37 percent of the regional output is one of the lowest in the world among regional blocs. In 2017 estimated GDP per capita (PPP based) for the ECO region stood at USD 12,553 which amounted to a growth print of 6.4 percent compared to a year ago.

Against this relatively rosy background, the ECO economies have still much to do in order to become more robust and to speed up convergence towards the development level of mature economies. Part of challenges to sustainable growth stem from global cycle but we have to deal with structural impediments, inefficiencies and undertake further reforms to address bottlenecks to potential growth. Unlike the previous three industrial revolutions, we are witnessing an exponential progress of the industry 4.0 paradigm. New technologies, like the digitalization of finance and artificial intelligence, hold tremendous opportunities, while posing challenges. It necessitates lending support for investment in technology and R&D as well as improvement in human capital and innovation, which are closely associated with productivity. Within this context, the post-global crisis period underlines the need for the ECO countries to adopt effective macro-prudential policy actions that safeguard financial stability.

Given the large development financing needs of the region, the Bank is aware that responding to the diverse development needs in the region is beyond the capabilities of one single institution. Therefore, the Bank would continue to take necessary steps and work in partnership with other development partners to catalyse greater resources. All the operations are aligned with national sustainable development strategies. In this respect, the Bank ensures close consultation and cooperation with member governments, development partners, the private sector, and other stakeholders. Implementing a strategic dialogue with member countries through Country Partnership Strategy documents helps the Bank remain relevant and support main developmental needs. Safeguards for social and environmental impacts remain indispensable components of the operations.

Despite numerous challenges in the operating environment, the Bank has been remarkably successful in enhancing its operations during the past 10 years. ETDB's involvement in realization of various projects in the member states particularly in the areas of wind and solar power generation, transport, rural/agricultural infrastructure, healthcare and energy efficiency has been remarkable.

The Bank has been receiving necessary support from its shareholders and business partners, which will confidently continue in the years ahead. In line with its mandate, the Bank has been pursuing a business model to support trade, development of micro & SMEs, meeting the financing needs of corporates and projects in the member states in an effective manner. According to the needs of the member states, sectors of infrastructure, manufacturing, agriculture, energy, transport and communications, which have significant impact on the development of the member states, have been given special attention.

During the business plan (2013-2017) period, the Bank has been able to demonstrate more elevated standing as a dedicated development institution in fulfilling its vision. The Bank has streamlined business processes and continues to
sustain a sound operating structure to grow and fulfil its specific mandate. Necessary operational documents have been adopted and amendments are made whenever required. A competent credit response time has been ensured to effectively serve the needs. Overall, the main achievements of the Bank during 2nd five-year business plan are highlighted as below:

a. Since 2008, when the Bank started its operations, the total amount of loans disbursed to various operations in the member states have exceeded SDR 975 million as end of December 2017.

b. Good asset quality was maintained with a well-diversified portfolio in terms of sector and country without any non-performing loan.

c. Average internal credit rating score assigned to the outstanding loan portfolio was 3.7 points by the end of 2017, which represented a sound risk level on a scale of 1 to 10.

d. The Bank continued to incorporate strong financial, social and environmental safeguards in order to expand its operations sustainably.

e. Expansion of membership base has been pursued decisively. With joining of Azerbaijan, Afghanistan and Kyrgyzstan, the membership base of the Bank has been enlarged to include six ECO member states. Progress with regard to membership of other four ECO countries, namely Kazakhstan, Tajikistan, Turkmenistan and Uzbekistan is being pursued.

f. The total assets of the Bank which amounted to SDR 495.5 million by the end of 2017 increased by 10.5% compared to 2012 end year figure.

g. The micro and small & medium size enterprises (M-SMEs) support programme and trade finance facility continue to deliver positive developmental results. Over 1,100 SMEs benefitted from these funds, which were mainly active in the manufacturing, printing, energy, telecommunication, food processing, construction, pharmaceuticals, textile, trade and services sectors, thereby contributing to the economic development and job creation. In addition, it is considered that over 60,000 micro-entrepreneurs have benefitted from intermediated funds of the Bank.

h. The total reserves and retained earnings of the Bank which amounted to SDR 53 million by the end of 2017 represented an increase of 160% compared to 2012 end year figure.

i. Net profit amounting to SDR 9.7 million for the year 2017 increased by 44% compared to 2012 end year results.

j. The RoA was 2% and the RoE stood at 2.7% as end of December 2017, which increased slightly compared to 2012 end year figures of RoA-1.5% and RoE-2.1%.

k. The Bank has made significant progress in focusing its activities on enhancing Enterprise-wide Risk Management (ERM) approach and improving its internal credit rating system and compliance procedures.

l. The Bank continued to strengthen its technological infrastructure to leverage business by integrating all technological enhancements with the business processes mainly in three areas, SAP (Banking Application), Business Continuity (Disaster Recovery) and Security (Firewall upgrade).

m. The Bank continued to prepare regular supervision/monitoring reports to mitigate various risks in the specific operations and sustain the robust status of the loan portfolio.
n. Strategic cooperation arrangements with relevant Multilateral Development Banks such as IFC, BSTDB, EBRD, IsDB, ADB, etc. have been pursued to enhance co-financing operations.

o. Highly calibrated human resources and dedicated staff continue to manifest itself in the growth and encouraging financial performance of the Bank.

Despite encouraging achievements, the Bank cannot afford to be complacent in the coming period. It has to enhance its key strengths and mitigate weaknesses. It has to efficiently gear up to improve its activities and achieve more shares in providing development finance. The current plan has been developed in view of a viable funding scenario. Accordingly, the Bank is expected to expand its operations based on its funding capacity, which is mainly composed of equity (paid-in capital and retained earnings) and short-term borrowings. The average annual growth rate of funding capacity for 2018-22 period is estimated to be 2.8%. Nevertheless, depending on the market conditions and external credit rating processes, the Bank would look into opportunities for long-term borrowing as well to further enhance its funding capacity.

There are no actual bad loans or non-performing loans forecasted during the period covered by the Plan. Expected credit loss allowance would be calculated according to credit risk profile during the period and an optimal average loan maturity structure would be sustained towards 3-4 years to ensure a constant flow of new operations. The total outstanding loans which stood at SDR 301 million by the end of 2017 is projected to reach SDR 406 million by the end of 2022. The total reserves including retained earnings which accumulated to SDR 53 million by the end of 2017 is targeted to reach SDR 121 million by the end of 2022.

Under supervision and monitoring practices project visits by the Bank and the project consultant company would be continued in order to enhance compliance and enable the Bank to understand and proactively resolve the issues affecting Bank-financed projects. Special attention shall be given to projects that are vulnerable to global or local economic challenges and appropriate remedial measures and turn around strategies would be implemented promptly. The Bank is ever increasing its visibility and transparency through enhanced operational structure and external relations. Overall, under the envisaged funding scenario the following main institutional targets would be focused during the coming years:

- Good asset quality: maintaining a well-diversified (sector and country wise) portfolio without any non-performing loan.
- Maintaining a robust project pipeline in close cooperation with the partners.
- Increase emphasis on supporting medium sized companies and second-tier high growth potential firms.
- Increasing the membership base.
- Enhancing co-financing arrangements with relevant partners.
- Obtaining a favorable external credit rating.
- Raising medium and long-term external financing at reasonable cost.
- Strengthening the enterprise-wide risk management perspective.
- Maintaining an efficient IT infrastructure to ensure reliable and efficient functioning of business processes.
- Enhancing the human resources and technical capabilities on need basis.
• Adhering to prudent banking practices notably in view of new developments in the field of Anti-Money Laundering and Combating the Financing of Terrorism (AML-CFT) and KYC requirements.

The new Business Plan charts ETDB’s way forward to becoming a more effective institution based on results. Marketing efforts and direct visits to potential firms and public institutions would continue to identify new opportunities. The most compelling comparative advantage of the Bank is clearly its regional ownership. The Bank is better placed than any other development finance institution operating in the region to understand local and regional challenges and opportunities. It can be a focal point for cooperation and coordination in the development of the ECO region.

Key Products and Services

The financial products and services offered by the Bank are based on the strategy to emerge and grow as strong financial institution in promoting economic growth among member states. The loans are tailored to specific financial requirements of its clients, including project, corporate and trade transactions, and afford its clients the benefit of the most sophisticated financial techniques available in the financial markets. Thus, enabling the beneficiaries to manage risks and broaden their access to domestic and foreign capital markets. All operations are required to observe criteria set within the negative list of products policy, anti-money laundering regulations as well as environmental policy. The Bank accepts appropriate credit proposals and ensures that operations are best suited to the Bank’s mandate and appear to be financially sound and economically viable. Development and integration impact, in particular, tends to preclude a preferential factor in allocation of funds towards operations with the optimum risk/return ratio. The services are provided at reasonable costs with favorable repayment conditions. The main objective is not to maximize profits but at least to recover operating costs, the cost of capital employed and to maintain healthy financial ratios. Keeping in view its evolving capacity and capital base, the Bank would be offering, to both public and private sectors, diversified products, which would inter-alia include;

• Trade finance;
• SMEs finance loans;
• Microfinance loans;
• Corporate and project finance loans;
• Guarantees, and
• Technical assistance and advisory services

The Bank has dedicated trade finance and M-SMEs development facilities conducted through local financial intermediaries. The credit lines extended to FIs (e.g. commercial banks, Islamic banks, and non-bank FIs including leasing companies, EDAs, DFIs, microfinance institutions, etc.) enables the Bank in serving specific market segment more efficiently and effectively than the Bank might be able to do directly. The loans provided to selected FIs in the member countries for increasing Bank’s outreach capacity for development of SMEs, micro-enterprises and trade finance operations. Further improvements in this cooperation would advance the financial sectors ability to respond to the needs of end users and effectiveness of operations. In this respect, more attention will be given to programs continuing promotion of intra-regional trade, development of SMEs and micro-enterprises. The
Bank has developed the required infrastructure and executed the first Islamic SME murabaha facility. Taking into consideration the relevant demand in the region, Islamic finance window would bring significant business expansion, hence increased development impact opportunity to the Bank. The Bank would also support FIs through provision of medium-long term subordinated loans which will be extended on case by cases basis with a specific condition to improve the SMEs portfolio of the FIs.

The operations over the coming years would concentrate on enhancing the number of FIs benefitting from the resources of the Bank. While strengthening credit relations with the leading FIs in the member states, the Bank would target financially sound mid-tier commercial and participation banks and non-FIs e.g. leasing companies and microfinance institutions which have effective distribution services and channels for SMEs loans and trade finance. Particularly, through micro-finance institutions, the Bank will focus on expanding access to finance, particularly among lower-income groups and micro-enterprises.

Trade Finance

Trade finance operations are carried forward as distinct core business of the Bank with an aim to promote exports of the member states and foster intra-regional trade. The Bank offers a number of instruments (e.g. direct and intermediated loans, guarantees, pre-export finance facility, buyer credits and discounting, etc.) designed to address funding needs of the exporters/importers. In order to support competitive advantage for greater exports, enhance intra-regional trade, job creation in the member states, the Bank also provides finance for import of capital equipment (machinery and relevant spare parts), raw material, intermediary goods and essential humanitarian need items from outside the ECO region. Trade finance operations shall comply with the relevant Bank policies, strategies, guidelines, rules and regulations. Transactions involving goods mentioned in the ETDB’s Negative List of Goods (including the Bank’s Environmental Exclusion List) are excluded from financing. Going forward, the Bank would continue supporting trade finance needs and tapping into intra-regional trade opportunities.

Corporate Finance

Corporate loans are provided directly to the private firms and public sector entities in order to cover their needs such as acquisition of equipment, modernization of plant and structures, trade transactions and other related expenditures. The main target market would be medium sized locally incorporated companies that are dynamic, rapidly expanding operations, export oriented, transfer technology and know-how, generate high levels of value added and create employment. Development of public-private initiatives would contribute towards improving exports and competitiveness of respective economies. Meanwhile, promoting complementarities and giving preference to procurement from member economies would be encouraged.

Project Finance

In line with its overall objective of fostering economic development and social progress, the Bank provides medium to long term finance to development projects.
The process of selecting projects is based on the assessment of additionality and development impact. Contribution to national priorities and promoting complementarities among member states, in particular, tends to preclude a preferential factor in allocating funds towards projects with the optimum risk/return ratio. The Bank finances projects in target sectors, both in the public and private initiatives, which would contribute towards economic development of member countries. The guiding principle would remain that the potential projects should be financially viable and operationally feasible for the Bank to commit its resources. The Bank would strive to implement best industry practices in a transparent manner by fully observing procurement rules. To lower potential risks and use the available assets in an efficient manner, financing of large scale projects would generally be handled through consortiums. Growing operations and the increase in the number and size of the transactions would enable the Bank to gather sector know-how and develop internal capacity.

Co-Financing

In the medium to long term, the Bank aims to put greater emphasis on tapping additional sources of finance to support its operations. This would allow it to substantially augment its resource base and extend its services and operations. Co-financing has been identified as a preferred option and avoiding any duplication of effort and doing more projects more efficiently. The Bank will connect and coordinate co-financing arrangements with partners on both public and private sector projects. It would be performed at two levels: co-financing with commercial banks, e.g. through syndication; and official co-financing with export credit and investment-insurance agencies, and international institutions such as development banks and bilateral donors.