# BUSINESS PLAN

# (2013-2017)

The ECO Trade and Development Bank (ETDB) has been established with a vision is to become 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 a supra-national institution of the ECO region, it has been able to built-up an efficient organizational structure and sound internal regulatory framework to improve its development effectiveness, governance and additionally. Protection of the Bank's accountability and financial stability continues to be a central component of its corporate governance framework. In this respect, transparency and adherence to sound banking principles have always been placed at the core of its operations. 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. 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. 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.

Despite numerous challenges in the operating environment, during past several years the Bank achieved considerable milestones. It has been pursuing an ambitious agenda but also realistic enough in order to be credible and effective. In line with strategic objectives set out in its establishment agreement, achievements continue to manifest itself in the growth and financial performance of the Bank. With its deep understanding of local needs, the Bank has the capacity to implement well-targeted, practical, substantive operations. It has been receiving overwhelming support from its shareholders and business partners. The Bank provides a range of medium-to-long term products and services to the public and private entities for enhancing trade, development of SMEs, meeting the financing and technical assistance needs of corporates and projects in the member counties. To this end, the representative offices of the Bank in Tehran (Iran) and Karachi (Pakistan) are playing an effective role in identifying, coordinating and monitoring the operations. The Bank is also helping to encourage other financial institutions to invest in the ECO region. Through co-financing arrangements concluded with relevant Multilateral Development Banks (MDBs) and bilateral financial institutions, the Bank has been able to mobilize additional resources to prospective projects in the member states. This will continue to be an area of emphasis for the Bank, as it seeks to broaden and institutionalize relationships with other partners. The Bank has the ability to add value and reduce risk in regard to investments designed to foster economic growth in the region. The Bank has been able to conclude eminent examples of leading project/corporate finance operations in the region such as wind power project, metro project and development of irrigation and wastewater systems. On the other hand, through targeted credit lines extended to local financial intermediaries including banks, leasing companies and micro-finance institutions, the Bank is providing support to the development of SMEs, micro-enterprises and trade finance operations in the region. The main target of the operations has always been to support companies that are dynamic, expanding operations, export oriented, transfer technology and know-how, generate high levels of value added and create employment. The total amount of loans disbursed and committed to various operations in the member states amounted to USD 696 million by the end of 2012. The Bank has been posting a positive net income without having any non-performing loan in its well diversified portfolio.

In the meantime, the Bank has also made excellent progress in focusing its activities on enhancing risk management perspective. Although, the capital resources of the Bank is very modest compare 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 has developed effective internal credit risk rating models and assigns a risk score to all counterparties in order to actively identify and manage risks inherent in its activities. Overall, the Bank ensure firm adherence to enterprise-wide risk management approach and avoids strictly practices which are detrimental to its institutional reputation and financial position. To this end, the Bank would protect 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 Bank also 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 expansion of membership base of the Bank has been pursued decisively. Azerbaijan and Afghanistan have become a member of the Bank and membership of other ECO countries are expected to be finalized soon. Participation of all ECO member states to the Bank is undoubtedly a valuable source of potency and would help the Bank to expand its outreach and true potential with full regional ownership.

Overall, these are not a small achievement for a young regional institution. Indeed, the Bank's many successes reflect the successes of the region it serves. Now, after a successful initial period of operation, the Bank has entered to a new stage of business. During this phase the imminent focus of the Bank would include improving its services and overall operational effectiveness. Building on its strong foundation, the Bank has to enhance its key strengths and mitigate weaknesses. Supporting the development aspirations of the member countries, the Bank has to efficiently gear up to improve its activities and achieve more shares in providing development finance. The new Business Plan (2013-2017) of the Bank which is approved by the Board of Governors during its 12th meeting held on 5 July 2013 in Istanbul is the key strategic document of the Bank and will guide the Bank in its activities over the coming period. The plan provides a strategic perspective and a realistic road map for the Bank to progress its operations efficiently. Particularly, the Bank would aim to advance its vision and translate the strategic objectives into goals over the coming five year period and consider the ways and means to achieve them. The plan has been developed in view of different operating scenarios (i.e. low-case, base-line and high-case). Accordingly, based on its competitive advantage and market niche in the region, the Bank's strategic goals over the next five years under different operating scenarios would mainly focus on following activities;

· Good asset quality: maintaining a well-diversified (sector and country wise) portfolio without non-performing loan
· Building-up a robust project pipeline in close cooperation with the partners

· Introducing new products and services tailored to the needs of the member states

· Deepen and broaden current areas of engagement in trade and project finance in existing member states as well as in new members joining the Bank

· Focusing on cooperating with 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.

· Scrutinizing outstanding commitments continuously in order to eliminate any idle commitments.

· Increasing the membership base

· Enhancing the co-financing arrangements with relevant partners

· Obtaining and maintaining a favorable external credit rating

· Leveraging capital resources with medium-long term external financing at a reasonable costs

· Employing effective operation options and resources for the Treasury

· Further improving and strengthening the risk management perspective

· 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

· Continue to invest in development of Bank's IT infrastructure to maintain an effective integrated system

· Enhancing the human resources and technical capabilities.

Given the current level of performance, the Bank is on the verge of taking off on a steep growth tangent, with the attendant benefits to regional development. While coming period is expected to present ETDB with immense opportunities, the challenges should not be underestimated or ignored. Building on the its achievements and lessons learnt during the last years as well as on the comparative advantages and emerging opportunities available across different sectors and countries, the Bank would further strengthen its key role. Operational priorities such as promoting regional economic integration, development of trade, SMEs, private sector and infrastructure in which the Bank has unmatched advantage, expertise, access and trust would be carried out to increase the Bank's market presence. In view of the strategic objectives of the Business Plan, the Country Partnership Strategy (CPS) documents are prepared in close association and consultation with the national governments, development partners, and other stakeholders. These country specific documents highlight areas of opportunity where the Bank would provide support to each member country in an efficient, effective, and result-oriented manner. Hence, with the continued support of its shareholders, ETDB looks forward to playing an even more positive, and effective role in the years beyond. The Bank would endeavor to be a well-recognized development partner and reliable brand name of the region.

**Target Sectors**

The Bank would finance programs/projects covering a wide range of socio-economic spectrum envisioned to contribute its regional development objectives. Based on the detail analysis of the business environment and country partnership strategies, the Bank, in the short-to-medium term, would mainly focus on following main sectors;

- Energy
- Finance
- Transportation and telecommunication
- Manufacturing & Information Technologies
- Construction and infrastructure
- Agriculture
- Trade

**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 Bank offers a wide range of products and services in order to respond flexibly and effectively to the diverse needs of its clients and to address their specific financial risk. 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;

- Corporate Finance
- Project Finance
- Equity investment
- Guarantees
- SMEs finance
- Trade Finance
- Co-financing
- Technical assistance and advisory services
- Islamic Finance
- Microfinance

The products and services of the Bank are provided through following means i.e. Credit Lines for Banking and Non-banking Financial Institutions (FIs), project and corporate finance operations;

**Credit Lines for Banking and Non-banking Financial Institutions (FIs).**

The Bank has dedicated trade finance and 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 select 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 additionally 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 finance 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.

## Equity Financing

The Bank aims to provide equity investments to facilitate the launching of new ventures or the privatization of state-owned enterprises. It aims to get involved in provision of capital for innovative and productive industrial and agro-industrial projects that are economically and financially feasible. The Bank plans to hold a minority shareholder position in the companies in which it invests. The underlying principle is to generate enough confidence in the equity markets for other investors to contribute to equity offering strengthening the capital base of the enterprise. The Bank would not normally be the largest shareholder in a project and would encourage other financiers to participate in the financing of such companies/enterprises.