BUSINESS PLAN (2023-2027)

The Bank has been established with a vision to become the financial pillar of economic cooperation among ECO member states fostering sustainable economic development and integration. In line with this vision, since its operationalization in 2008, the Bank has been able to build-up an efficient organizational structure and established fundamental 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 practices of peer institutions and the needs of member states.

The Bank has a sound corporate governance structure managed through well-defined responsibilities distributed to 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. In this respect, accountability, transparency and adherence to sound banking principles have always been placed at the core of its action plan.

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, health, agriculture, energy, transport and communications, which have significant impact on the development of the member states, have been given special attention.

The global economy witnessed a significant economic rebound in 2021 as reflected by the broad economic recovery that took hold across various countries. The growth momentum was disrupted in early 2022 with the outbreak of Russian-Ukraine war, lingering COVID-19 and cost-of-living crises due to sharp rise in inflation. As per the latest IMF estimates, global GDP growth slowed down in 2022 registering growth of 3.5 percent compared to 6.3 percent in the previous year.

ECO region, similar to the global economy, witnessed slowdown in economic activity with real GDP growth moderating to 4.9 percent in 2022 compared to 7.8 percent growth print achieved last year which reflected the worsening of supply chain bottleneck, high energy and food prices and tightening of financial conditions as most central bank across the region raised policy interest rates to curb inflationary pressures.

Despite numerous challenges in the operating environment, the Bank has been remarkably successful to enhance its operations during the past 14 years. In a short period of time, ETDB has grown from being a concept into a fully functional multilateral development bank (MDB). During implementation of its 3rd five-year business plan (2018-22), the Bank aimed to present more elevated standing as a dedicated development institution in fulfilling its vision. The Bank has streamlined business processes and continued to sustain a sound credit portfolio structure. The time also provided valuable lessons to guide the Bank in its continuous evolution. In consideration of the economic challenges in the member states and special business circumstances which particularly emerged due to COVID-19 pandemic, the Bank revised the targets of its business plan, making the Bank confident about its successful implementation. Overall, the main achievements of the Bank during 3rd 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 which amounted to SDR 1 billion as end of 2017 further increased to SDR 1.7 billion (USD 2.5 billion) as end of 2022. In line with its mandate to support trade transactions of member states, about 65 percent of the total disbursed funds were extended for financing trade, making the Bank's involvement in the region's trade more inclusive.

b. Good asset quality was maintained with a diversified portfolio in terms of sector and country. The outstanding loan portfolio increased by 25 percent compared to previous year and reached to SDR 318 million as the end of 2022.

c. Product wise, 33 percent of the total outstanding loans were directed to short-term trade finance operations, 15 percent to M-SMEs and 52 percent to project and corporate finance operations.

d. Sector wise, 48 percent of the outstanding loans were extended to financial sector (due to business strategy on supporting M-SMEs and trade), energy and mining-31 percent, industry-5 percent, water, sanitation-5 percent, public sector management- 8 percent and health and social protection-3 percent. As end of 2022, the shares of public and private sector in the total outstanding loans stood at 71 percent and 29 percent respectively.

e. The average internal credit rating score assigned to the total outstanding loan portfolio of the Bank was improved and stood at 3.3 points by the end of 2022 (2021: 3.7 points) which represented a low risk level on a scale of 1 to 10. The Bank continued to incorporate strong financial, social and environmental safeguards while expanding its operations sustainably.

f. As of 31 December 2022, the Bank classified three of its loans as Stage 3 and all other financial assets in Stage 1. Sovereign guarantees are held as collaterals against project finance loans grouped under Stage 3 and delays in the repayments are expected to be resolved soon.

g. The total assets of the Bank amounted to SDR 471 million by the end of 2022 (2021: SDR 465 million).

h. The Bank posted positive net income during 2018-22. The net income of the Bank reached to its highest historical level of 15.5 million SDR in 2022 (2021: SDR 9,054 thousand).

i. The total reserves and retained earnings of the Bank amounted to SDR 101 million by the end of 2022 representing an increase of 88 percent compared to 2017 end year figure.

j. The Return on Assets (RoA) was 3.3 percent and the Return on Equity (RoE) stood at 3.7 percent as the end of December 2022 which was comparatively higher than 2017 end year figures (2017-RoA: 2 percent, RoE: 2.7 percent).

k. 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 pursued decisively.

l. The Micro and Small & Medium Size Enterprises support program and trade finance facility continue to deliver positive developmental results. The SMEs which benefitted from these funds were mainly active in production, trade energy and construction sector thereby contributing to the economic development and job creation.

m. The Bank has been responsive to the emergency needs of the member states. In response to COVID-19 pandemic, earthquakes and floods, respective emergency soft loan supports were offered for rehabilitation and recovery efforts.

n. While maintaining the adequate liquidity cushion, the treasury operations continued to make the best possible use of funds and avoid any currency open position.

o. 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.

p. The Bank continued to strengthen its IT infrastructure to leverage business by integrating all technological enhancements.

q. Regular supervision/monitoring reports are prepared in order to mitigate various risks in the specific operations and sustain the robust status of the loan portfolio.

r. Strategic cooperation arrangements with relevant MDBs and national financial institutions have been pursued to enhance co-financing operations.

s. The Bank has successfully adapted necessary measures regarding phasing out of London Interbank Offered Rate (LIBOR) and transition to alternative reference rates.

t. Internal regulatory policy documents and regulations have been reviewed and necessary updates and arrangements have been made accordingly.

Despite encouraging achievements, the Bank cannot afford to be complacent in the coming period. While mitigating the challenges, it has to efficiently gear up to improve its activities and achieve more shares in providing development finance. The Bank has the necessary foundations for seamless expansion of its operations during its next five-year strategy phase. The new Business Plan (2023-27) aims to elevate ETDB to a higher standard of operational excellence and development impact. The new targets focus on enhancing the Bank’s capacity to mobilise resources at scale, finance diversified types of projects, employ sophisticated instruments, maximise impact, and continue building a robust institutional profile. Particularly, the overarching objective is to support the Bank’s effectiveness in fulfilling its mandate.

The 4th five-year business plan (2023-27) has been developed in view of two funding scenarios. The scenarios are driven by the level of funding capacity that will enable the Bank to enhance its lending capacity. Accordingly, under the Base Case scenario, 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 Base Case scenario, which makes a series of conservative assumptions, foresees 19 percent increase in the outstanding loan portfolio compared to end year figure of 2022 and reach to SDR 368 million by end of 2027. The total reserves and retained earnings of the Bank amounting to SDR 101 million by the end of 2022 are expected to increase by 105 percent and amount to SDR 207 million by the end of 2027. The Bank's balance sheet is projected to increase by 17 percent under this scenario.

The Upper Case scenario expects further expansion of the loan portfolio and balance sheet through capital increase, expansion of membership, and external borrowing. Hence the scenario envisages a more favorable operational growth. Current members of the Bank are expected to double their contribution to paid-in capital by adding SDR 326,750 million in total until the end of 2027. The new members will join the Bank and contribute SDR 50 million to the paid-in capital of the Bank. Under this scenario, the outstanding loan portfolio is expected to grow substantially and amount to SDR 666 million as end of 2027. Similarly, the total reserves including retained earnings, is expected to reach SDR 251 million by the end of 2027. Depending on the market conditions and external credit rating of the Bank, SDR 48 million is projected to be borrowed by the end of 2027 to supplement the funding base. The Bank's balance sheet is projected to increase by 117 percent under this scenario.

These two scenarios establish the upper bound and the lower bound of the corridor where the operational portfolio and balance sheet of the Bank may evolve over the 2023-27 period, depending upon realization of the assumptions. The common operational targets determined under both of the scenarios assume that there are no actual bad loans or non-performing loans during the new business plan period. Intermediated operations (e.g. credit lines to FIs) are planned to amount 45-50 percent of the outstanding portfolio and direct operations to projects and medium sized corporations are targeted to amount 50-55 percent of the total outstanding portfolio. The Bank would look into opportunities to further enhance its funding capacity in both of these scenarios depending upon depending upon global and regional developments that determine both constraints and opportunities.

Given the large development financing needs of the region, the Bank would continue to take necessary steps and work in partnership with other development partners to catalyse greater resources. 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 would remain indispensable components of the operations.

Under supervision and monitoring activities 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.

In order to support competitive advantage for greater exports, enhance intra-regional trade, job creation in the member states, the Bank may also provide finance for import of capital equipment (machinery and relevant spare parts), raw material (mainly energy related items such as oil, gas, coal, etc.), intermediary goods and essential humanitarian needs in health related items from outside the ECO region. Furthermore, and to the extent possible, local currencies should be employed for purposes of trade finance between member countries.

Taking into account macroeconomic forecasts, the high level of competition and realization of the envisaged funding scenarios 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,
- Scaling up the Bank's footprint on the markets of member states and maintaining a robust project pipeline in close cooperation with the partners,
- Increase emphasis on supporting medium sized companies and second-tier firms with high potential of growth,
- Expanding the Bank's products and service offering,
- Expansion of the current shareholder structure in order to broaden the geographical footprint of operations, the resource base, and the existing competencies,
- Enhancing co-financing arrangements with relevant partners,
- Obtaining a favorable external credit rating,
- Raising medium and long-term external financing at reasonable cost,
- Advancing the enterprise-wide risk management perspective, assets\liabilities management and control system,
- Increasing the Bank's recognition in the international markets,
- 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.

Based on its strong foundation and support of member countries, the ETDB's general strategy for 2023–27 sets the course for contributing to the Bank's evolution into a well-recognized and reliable brand name of the ECO region in proving development finance services.