



# CASE STUDY

## Trade Facilitation Programme

### UKRAINE

## 1. PROJECT HIGHLIGHTS

| Key Cross-Country Benefit  | Key National Benefit   |
|--|--|
|  <p><i>Rescue of a number of countries heavily dependent on food imports from Ukraine.</i></p> |  <p><i>Mitigation of the economic shock caused by the war by promoting the functioning of exports and imports.</i></p> |

## 2. QUICK FACTS

| Categories                            | Project Details   |
|---------------------------------------|---|
| <b>Project Name</b>                   | Trade Facilitation Programme Ukraine  |
| <b>Project Description</b>            | The Trade Facilitation Programme (TFP) has been established in the 1990s and been active in Ukraine since 1999. Yet, as the Russian invasion in February 2022 severely hit the country's economy and its trade relations in particular, support has been increased. The TFP supports and fosters trade through letters of credit to national and international commercial banks, issued by EBRD, covering the political and commercial payment risk of transactions and short-term liquidity support. |
| <b>Global Public Good (GPG) Theme</b> | Fair international trade system   |
| <b>Sub-Theme</b>                      | Free, open, and fair trade  |
| <b>Sector</b>                         | International trade, Agriculture, Forestry and Fishing, Manufacturing   |

Disclaimer: We based the case study on the information cited and publicly available as of May 2023. The findings – especially concerning the GPG perspective – have been concluded to our best knowledge. The views expressed are the authors' assessments and do not necessarily reflect the project stakeholders' views. Any errors that remain are our responsibility.

|   |   |
|---|---|
| <b>Country of Implementation</b>                        | Ukraine   |
| <b>Region</b>   | Europe and Central Asia   |
| <b>Income Category</b>                                  | Low-middle income   |
| <b>Implementation Period</b>                            | 2022 – ongoing for the current project, with general participation in the TFP since 1999  |
| <b>Project Volume</b>                                   | Not applicable as guarantees are provided. Between February 2022 and June 2022, the TFP has supported over €140 million) in trade transactions for the most crucial goods for the Ukrainian economy.  |
| <b>Financial Source</b>                                 | MDB own account   |
| <b>Instruments</b>                                      | Guarantee   |
| <b>MDB Involved</b>                                     | European Bank for Reconstruction and Development (EBRD)   |
| <b>Implementing Partner</b>                             | Partner banks in Ukraine: Bank Lviv, Piraeus Bank, Credit Agricole Bank, OTP Bank, Pravex Bank, Raiffeisen Bank, The State Export-Import Bank of Ukraine (Ukrex-imbank), State Savings Bank of Ukraine (Oschadbank), Ukrgasbank, Ukrsibbank, and several international banks, see <a href="https://www.ebrd.com/work-with-us/trade-facilitation-programme/confirming-banks.pdf">https://www.ebrd.com/work-with-us/trade-facilitation-programme/confirming-banks.pdf</a> |
| <b>Link to Detailed Project Information<sup>1</sup></b> | <a href="https://www.mfcr.cz/assets/cs/media/2022-08-03_TFP-Factsheet-Ukraine-July-2022.pdf">https://www.mfcr.cz/assets/cs/media/2022-08-03_TFP-Factsheet-Ukraine-July-2022.pdf</a><br><a href="https://www.ebrd.com/2021-EBRD-Trade-Facilitation-Programme.pdf">https://www.ebrd.com/2021-EBRD-Trade-Facilitation-Programme.pdf</a>  |

### 3. WHY THIS IS A GOOD PRACTICE

This project is a good practice example for implementing the following features that promote GPG provision:

- **Ambition:** The ambition of the project is high as international food security is promoted by supporting trade with Ukraine—an important supplier of food staples globally. In 2021, for example, it was the number one exporter of sunflower oil with 46% of global exports.<sup>2</sup> Moreover it ranked third in barley and rapeseed exports, fourth in corn exports, and fifth in wheat exports.<sup>3</sup>

<sup>1</sup> If not stated otherwise, the two documents provide the main source for the case study.

<sup>2</sup> S. Feingold (2022): <https://www.weforum.org/agenda/2022/07/ukraine-s-food-exports-by-the-numbers/>

<sup>3</sup> Ibid.

- **Sustainability:** The special effort to mitigate the shock caused by the war is an emergency action and aims at preparing the economy of the country for further development. In this sense, it is expected to be sustainable.
- **Scalability:** The programme is scalable and has scaled already as the number of issuing and confirming banks has increased since the programme was established.

## 4. PROJECT INFORMATION

### 4.1 CHALLENGES OF GPG PROVISION IN THE COUNTRY CONTEXT

The Trade Facilitation Programme (TFP) has been active in Ukraine since 1999 supporting international trade transactions of more than €3.8 billion as of end of 2021.<sup>4</sup> In the current context of Russia's invasion of Ukraine in February 2022 trade has been severely disrupted and risks associated with trade increased dramatically. This is also reflected in the Ukrainian GDP: while real GDP grew by 3.4% in 2021, it contracted by more than 30% in 2022 and is projected to contract further by 3% in 2023.<sup>5</sup>

The sectors most affected by the war have been housing, transport, energy, commerce, and industry. Moreover, the agricultural sector has been heavily affected: it accounts for 11% of the country's GDP, 20% of its labour force, and 40% of its exports.<sup>6</sup> Of course, Ukrainians are suffering the most under these circumstances. However, especially the trade disruptions caused by the war affect people globally as well since **Ukraine is one of the most important exporters of staple grains**. In 2021, it was the number one exporter of sunflower oil with 46% of global exports.<sup>7</sup> Moreover it ranked third in barley and rapeseed exports, fourth in corn exports, and fifth in wheat exports.<sup>8</sup> Although countries across the world are affected, some developing countries, for example in Africa, were hit particularly hard.

Besides the physical disruptions to land transport routes, financial intermediation was disrupted as well contributing to the war's impact on trade. Foreign commercial banks were increasingly reluctant to engage in Ukrainian trade finance transactions due to the increase in risk. Thus, the EBRD decided to step in and ramp up the TFP in Ukraine supporting trade transactions especially for the most crucial goods for the Ukrainian economy, such as agricultural machinery and fertilisers. Moreover, to address food security, imports of seeds, fertilisers, fuel, tractors, and harvesters into Ukraine were facilitated in addition to export of grain, oil seeds, and vegetable oils.

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<sup>4</sup> EBRD (2022): [https://www.mfcr.cz/assets/cs/media/2022-08-03\\_TFP-Factsheet-Ukraine-July-2022.pdf](https://www.mfcr.cz/assets/cs/media/2022-08-03_TFP-Factsheet-Ukraine-July-2022.pdf)

<sup>5</sup> International Monetary Fund (2023): [https://www.imf.org/external/datamapper/NGDP\\_RPCH@WEO/UKR?year=2023](https://www.imf.org/external/datamapper/NGDP_RPCH@WEO/UKR?year=2023)

<sup>6</sup> EBRD (2022): [https://www.mfcr.cz/assets/cs/media/2022-08-03\\_TFP-Factsheet-Ukraine-July-2022.pdf](https://www.mfcr.cz/assets/cs/media/2022-08-03_TFP-Factsheet-Ukraine-July-2022.pdf)

<sup>7</sup> S. Feingold (2022): <https://www.weforum.org/agenda/2022/07/ukraine-s-food-exports-by-the-numbers/>

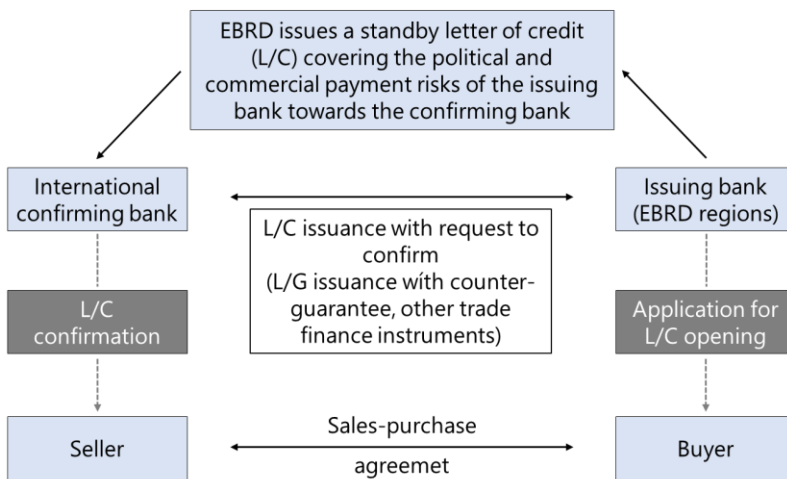
<sup>8</sup> Ibid.

## 4.2 INTERVENTION

### 4.2.1 Project Design and Agents of Change

The current Trade Facilitation Programme in Ukraine is part of the large Trade Facilitation Programme first established by the EBRD in 1993 that turned into an extended and permanent version in 1999. It was developed to promote and facilitate international trade to, from and within its countries of operation. In general, it does so by **providing guarantees to commercial banks covering the political and commercial payment risk of transactions.**<sup>9</sup> A detailed version of the guarantee facility is displayed in Figure 1. All types of trade finance instruments are covered, such as letters of credit, counter-guarantees, bills of exchange, and bid bonds, for example. In addition, the TFP also provides trade-related cash advances for on-lending to local exporters, importers, and distributors. However, this support is only for the purpose of pre- and post-shipment financing and other financing of working capital that is crucial for international trade contracts and domestic and inter-

**FIGURE 1: GUARANTEE FACILITY**



Source: [EBRD \(2022\)](#)

national factoring operations.<sup>10</sup> All goods are supported except activities, products, and substances listed in the TFP Environmental and Social Exclusion List.

**4.2.2 Expected results**

As of 2018, more than 100 issuing banks and more than 800 confirming banks were part of the TFP. It operated in 26 countries covering a total transaction value of €15 billion since 1999.<sup>11</sup>

The TFP has been active in Ukraine since 1999 covering a total transaction value of €3.8 billion since 1999 as of the end of 2021.<sup>12</sup> Thus, the TFP plays an important role in Ukraine especially concerning import and export activity. **Since the war started in February 2022, demand for guarantees increased as trade with and within Ukraine decreased and became significantly riskier. Since then, the TFP has supported over €140 million in trade transactions in important goods, such as imports of agricultural machinery and fertiliser (as of end of June 2022).**<sup>13</sup> Moreover, besides supporting the Ukrainian economy, the TFP also boosted support to address food security globally, by

<sup>9</sup> EBRD (2021): <https://www.ebrd.com/2021-EBRD-Trade-Facilitation-Programme.pdf>

<sup>10</sup> EBRD (2023): <https://www.ebrd.com/work-with-us/trade-facilitation-programme/products.html>

<sup>11</sup> EBRD (2018): <https://www.ebrd.com/sites/Satellite?c=Content&cid=1395238382348&pagename=EBRD%2FContent%2FDownloadDocument>

<sup>12</sup> EBRD (2022): [https://www.mfcr.cz/assets/cs/media/2022-08-03\\_TFP-Factsheet-Ukraine-July-2022.pdf](https://www.mfcr.cz/assets/cs/media/2022-08-03_TFP-Factsheet-Ukraine-July-2022.pdf)

<sup>13</sup> Ibid.

facilitating imports of seeds, fertilisers, fuel, tractors, and harvesters into Ukraine and exports of grain, oil seeds, and vegetable oils especially to Egypt, Morocco, Tunisia, and Turkey.

One practical example of the EBRD’s support for Ukraine is the import of grain storage equipment from Italy. As mentioned above, Ukrainian exports have been severely disrupted by the war. Consequently, grain silos filled up quickly leaving farmers struggling to find storage for the summer crops. Thus, a Ukrainian distributor of agricultural machinery resumed its operations by starting to import the relevant machinery and accessories from an Italian company. For the trade, a Ukrainian bank issued a standby letter of credit for €700,000 which was confirmed by an Italian bank. The EBRD covered 100% of the political and commercial payment risk.<sup>14</sup>

## 5. PROJECT IMPACT

### 5.1 NATIONAL BENEFITS

The main benefit for Ukraine from the TFP, especially since the Russian invasion, is the **mitigation of the sharp drop in trade activities**. According to Oxford Economics, goods exports decreased by more than 34% and imports by more than 28% in 2022. Consequently, the Ukrainian economy was supported as trade and GDP are closely intertwined (see Figure 2).

**FIGURE 2: GROWTH IN GLOBAL TRADED GOODS AND GDP (INDEX 2000=100)**



Source: [EBRD \(2021\)](#)

This led to several further benefits for the country, including continued production and distribution of goods including, for example, food, mitigation of unemployment, and income losses, for instance. Additionally, financial intermediation is supported, constituting a fundamental requirement for the economy. Although these aspects support the country enormously today, they also contribute to an easier reconstruction in the future as existing structures are largely maintained and relationships continued.

### 5.2 CROSS-COUNTRY BENEFITS

**The current design of the TFP in Ukraine explicitly promotes food security globally, as it is one of the most important global exporters of staples.** Considering just wheat, for example, Tunisia, Libya, Lebanon, Qatar, and Yemen are highly dependent on Ukrainian imports, as displayed in Figure 3. It is furthermore an important global supplier of sunflower oil, barley, rapeseed, and corn.<sup>15</sup> The cross-country benefits of the programme are therefore significant.

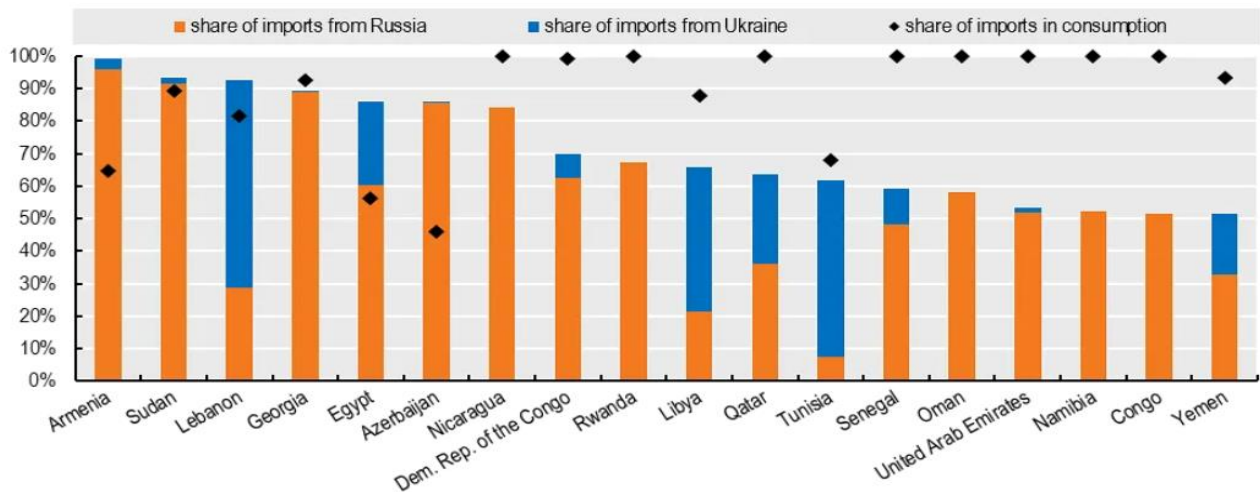
<sup>14</sup> EBRD (2022): [https://www.mfcr.cz/assets/cs/media/2022-08-03\\_TFP-Factsheet-Ukraine-July-2022.pdf](https://www.mfcr.cz/assets/cs/media/2022-08-03_TFP-Factsheet-Ukraine-July-2022.pdf)

<sup>15</sup> S. Feingold (2022): <https://www.weforum.org/agenda/2022/07/ukraine-s-food-exports-by-the-numbers/>

Additionally, since the TFP fosters and promotes trade, trading partners from other countries directly benefit from the programme as well. Considering, for example, the supported trade described in section **Fehler! Verweisquelle konnte nicht gefunden werden.**, the Italian company delivering machinery and accessories to store crops benefits from the TFP as well. Moreover, as described in the national benefits, the trade promoted supports further advantages for the partner country, such as economic growth, income, and employment, for example.

This contribution to global food security represents an interlinkage with another GPG, namely “global public health”. Moreover, the project also fosters the “prevention of violent conflict”. An economic downturn and food insecurity could constitute threats to peace increasing the probability of an outbreak of violent conflict especially in the most dependent countries. Next, a “stable international architecture” is supported as well since financial intermediaries in Ukraine are direct beneficiaries of the programme making insolvencies and a collapse of the banking system significantly less likely.

**FIGURE 3: DEPENDENCY ON WHEAT IMPORTS FROM RUSSIA AND UKRAINE (2018-2020 AVERAGE)**



Source: [OECD \(2022\)](#)

## 6. LESSONS FOR FUTURE GPG PROVISION

### 6.1 SUCCESS FACTORS

The TFP in Ukraine has generated country-level and cross-country benefits as it **provides support by issuing guarantees for risks which cannot be reasonably addressed by the private sector**. This is exactly what MDBs are made for. For the economies of Ukraine and other countries which depend on imports from there, it was and still is a crucial aspect. This is confirmed by a recent World Bank assessment on Ukraine’s rapid

damage and needs.<sup>16</sup> Here, guarantees are mentioned as a key tool to de-risk private investments and trade among other instruments.

The programme was run jointly by a number of countries and governments, which was of utmost importance for the balance sheet and the pricing of the EBRD as issuer of the guarantees.

A profound knowledge of the partner banks after a long-lasting cooperation through the TFP in the past is another prerequisite to keep the risk taking under control and extend the programme quickly once the war started.

The programme has won several awards confirming its success, including, for example, *Best Developmental Financial Institution* in Trade Finance Magazine's Awards for Excellence 2014 in the category global, *Best Development Bank* in Global Trade Review's Leaders in Trade Awards, and *Best Development Finance Institution Gold Award* in Trade & Forfeiting Review.<sup>17</sup>

The impact of the emergency action of the TFP for Ukraine has not yet been evaluated. There is however no doubt that this was the right action at the right moment.

## 6.2 HOW TO REPLICATE THE GOOD PRACTICE

The good practice can be replicated in other countries and by other MDBs. The special effort because of the war can be replicated as long as the war will continue. However, **the general concept of the TPF is replicable after the war and has already been replicated in several countries.** Indeed, as of today, the TPF covers 28 operating countries.<sup>18 19</sup>

Regarding the TFP in general and over the long term, final lessons learned from the TFP remain to be seen. Yet, some aspects have been identified in a recent evaluation<sup>20</sup>:

- Impact assessment of the TFP is challenging as there is no clear theory of change or a basis for measurement. The objectives, outputs, outcomes, and their interlinkage are not always clear. For example, while promoting competitive markets, training inputs for banks in COOs are also subsidised. Moreover, integration and resilience have become increasingly important, yet it is unclear how to operationalise these new priorities. To address these problems the objectives, outputs, and outcomes should be defined, for example in a theory of change. Here, it should also be highlighted how integration and resilience are supported.

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<sup>16</sup> World Bank Group (2023): <https://documents1.worldbank.org/curated/en/099184503212328877/pdf/P1801740d1177f03c0ab180057556615497.pdf>

<sup>17</sup> EBRD (2023): <https://www.ebrd.com/work-with-us/trade-facilitation-programme/achievements.html>

<sup>18</sup> EBRD (n.d.): <https://www.ebrd.com/documents/comms-and-bis/tfp-list-of-issuing-banks.pdf>

<sup>19</sup> The countries are Albania, Armenia, Azerbaijan, Bosnia and Herzegovina, Bulgaria, Croatia, Egypt, Georgia, Greece, Jordan, Kazakhstan, Kosovo, Kyrgyz Republic, Lebanon, Moldova, Montenegro, Morocco, North Macedonia, Romania, Serbia, Tajikistan, Tunisia, Turkey, Turkmenistan, Ukraine, Uzbekistan, West Bank and Gaza.

<sup>20</sup> EBRD (2021): <https://www.ebrd.com/2021-EBRD-Trade-Facilitation-Programme.pdf>

- Although the TFP has been evaluated earlier, there is a lack of responsiveness to market developments or internal EBRD reviews such that the product mix, for instance, has hardly changed since 1999. Although two previous evaluations recommended to develop an evaluable strategic framework, this was never done and TFP's framework is less evaluable today than in 2000. Thus, to improve the TFP internal reviews should be considered to adjust the TFP accordingly and ensure that its design is in line with market developments.
- As of May 2021, 40% of TFP trade was derived from high emission sectors, mainly oil and gas and metallurgy products. The environmental sustainability of the programme and its alignment with the Paris Agreement is therefore questionable. To address this issue the social and environmental exclusion list should be extended to cover for example oil and gas development and products from crude oil refineries and petrochemical facilities as well.