



Regional: Promoting Capacity Building in Financial Institutions in Emerging Countries in South Asia

Project Name	Promoting Capacity Building in Financial Institutions in Emerging Countries in South Asia			
Project Number	48910-001			
Borrower/Company				
Country	Regional			
Location	Regional			
Approval Number	8811			
Type of ADB Assistance / Amount	8811	Technical Assistance	USD 750,000	Proposed
Strategic Agendas	Environmentally sustainable growth Inclusive economic growth Regional integration			
Drivers of Change	Governance and capacity development Knowledge solutions Partnerships Private sector development			
Sector / Subsector	Finance - Finance sector development			
Gender Equity and Mainstreaming	No gender elements			
Responsible ADB Department	Private Sector Operations Department			
Responsible ADB Division	Private Sector Financial Institutions Division			
Responsible ADB Officer	Hermans, Monisha A.			
Project Sponsor(s)				
Description				
Objectives and Scope	Strengthening the financial sector by helping to develop financial institutions, infrastructure, and products and services is a key component of Strategy 2020. Through such initiatives, the Asian Development Bank (ADB) can support inclusive economic growth that is stimulated by private sector investment, which can be a key contributing factor in reducing poverty. Technical assistance (TA) is an important value addition that ADB can provide to leverage its nonsovereign funding, and is a development tool that is used frequently and successfully by bilateral and multilateral development banks in combination with private sector lending. For the financial sector, for instance, TA can be effectively used to help financial institutions develop or test new products; these activities, which financial institutions would not normally undertake, can widen access to finance for underserved customer segments. It can also be used to encourage qualified financial institutions (QFIs) to improve corporate governance or anti-money laundering (AML) standards beyond local requirements.			

Linkage to Country/Regional Strategy

Access to finance remains a major obstacle to private sector development and poverty alleviation. In South Asia, only 33% (2011) of the population had access to the formal financial sector. As of the end of 2013, domestic credit to the private sector as a percentage of gross domestic product (GDP) equaled 48% in Bangladesh, 44% in Bhutan, 48% in the Maldives, and 31% in Sri Lanka. These domestic credit ratios are considered low when compared to other countries in Asia the ratio is 118% in Malaysia, and 148% in Thailand. In many countries, banking sector assets have grown more slowly than GDP. Moreover, access to credit for small and medium-sized enterprises (SMEs) and other nontraditional sector borrowers are particularly low versus larger, more established borrowers. SME loans make up just 25% of total bank lending across Asia and the Pacific and the use of credit guarantees has helped improve bankability in some countries. The non-bank sector represents an average 0.8% of financial sector assets to GDP in South Asia. There is a need to incorporate nonbank financing options and other schemes into national policies, such as increased use of asset-based finance and capital market instruments. Small businesses lack access to credit from banks and NBFIs, with just 45% accessing lines of credit. Furthermore, the low level of GDP to insurance premiums paid in emerging Asian economies represents the lack of penetration of the insurance market, with insurance premiums equal to just 3% of GDP.

Strengthening and diversifying the financial sectors in ADB DMCs via knowledge transfer and capacity building within banks and nonbanking QFIs is needed to develop more innovative strategies and products tailored to a broader spectrum of borrowers. In addition, corporate governance, AML, and anticorruption efforts need to be strengthened in many QFIs throughout this region. Related party transactions, for instance, are prevalent in Asia and need to be carefully monitored. Risk management practices still do not meet international standards. With the move to Basel III, and as financial systems in South Asia become larger, more complex, and more interconnected, many banks will be in need of capacity development to ensure that adequate risk management systems are in place. Good environmental and social management systems and policies are also needed, and the introduction of such systems will typically require external expertise.

Summary of Environmental and Social Aspects

Environmental Aspects	FI
Involuntary Resettlement	FI
Indigenous Peoples	FI
Stakeholder Communication, Participation, and Consultation	The TA will be executed and implemented by ADB, with the PSOD as the focal point. ADB, through PSOD, will be responsible for all technical implementation issues. Disbursements under the TA will be made in accordance with ADB's Technical Assistance Disbursement Handbook (2010, as amended from time to time). The TA will be implemented over 36 months from the start date, coinciding with the approval date of the TA. In accordance with Article 14(iii) of the ADB Charter, any activity under the TA will begin only after receiving a no-objection letter from the government of the country in which the QFI is located. The TA activities will be implemented with the help of international and national consultants and consultancy firms. ADB and each TA recipient will form a project planning and coordination committee comprising representatives drawn from appropriate levels of each financial institution and ADB.

Timetable for assistance design, processing and implementation

Concept Clearance	-
Due Diligence	
Credit Committee Meeting	-
Approval	12 Dec 2014
Last PDS Update	12 Mar 2015

Project Page	https://www.adb.org/projects/48910-001/main
Request for Information	http://www.adb.org/forms/request-information-form?subject=48910-001
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