ADB

Technical Assistance Report

Project Number: 48910-001
Regional—Capacity Development Technical Assistance (R-CDTA)
December 2014

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

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
AML	–	anti-money laundering
DMC	–	developing member country
NFBI	–	nonbank financial institution
PSOD	–	Private Sector Operations Department
SMEs	–	small and medium-sized enterprises
QFI	–	qualified financial institution
TA	–	technical assistance

NOTE

In this report, "$" refers to US dollars.

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CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data — **Project Number:** 48910-001

Project Name	Promoting Capacity Building in Financial Institutions in Emerging Countries in South Asia	**Department /Division**	PSOD/PSFI
Country Borrower	REG	**Executing Agency**	Asian Development Bank

2. Sector

Sector	Subsector(s)	ADB Financing ($ million)
✓ Finance	Finance sector development	0.75
	Total	**0.75**

3. Strategic Agenda

Strategic Agenda	Subcomponents
Inclusive economic growth (IEG)	Pillar 1: Economic opportunities, including jobs, created and expanded
Environmentally sustainable growth (ESG)	Urban environmental improvement
Regional integration (RCI)	Pillar 2: Trade and investment Pillar 3: Money and finance

Climate Change Information

Climate Change impact on the Project	Low

4. Drivers of Change

Drivers of Change	Components
Governance and capacity development (GCD)	Anticorruption Client relations, network, and partnership development to partnership driver of change Institutional development Organizational development
Knowledge solutions (KNS)	Knowledge sharing activities
Partnerships (PAR)	Commercial cofinancing Private Sector
Private sector development (PSD)	Promotion of private sector investment

Gender Equity and Mainstreaming

No gender elements (NGE)	✓

5. Poverty Targeting

Project directly targets poverty	No

Location Impact

Rural	Medium
Urban	Medium

6. TA Category: B

7. Safeguard Categorization Not Applicable

8. Financing

Modality and Sources	Amount ($ million)
ADB	**0.75**
Non-Sovereign Capacity development technical assistance: Technical Assistance Special Fund	0.75
Cofinancing	**0.00**
None	0.00
Counterpart	**0.00**
None	0.00
Total	**0.75**

9. Effective Development Cooperation

Use of country procurement systems	No
Use of country public financial management systems	No

I. INTRODUCTION

1. Strengthening the financial sector by helping to develop financial institutions, infrastructure, and products and services is a key component of Strategy 2020.[1] 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.[2] 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.

2. As part of ADB's efforts to strengthen financial sectors and enhance its development impact in its developing member countries (DMCs), ADB has approved three regional capacity development TA projects for private sector QFIs; phase 1 was completed in 2011 and phase 2 will be completed at the end of 2014. The third TA targets transition countries in Central Asia and Mongolia.[3] These TA projects have been used along with ADB funding or guarantees to private sector QFIs to enhance capacity development in a number of areas, including corporate governance and internal controls; financing strategies, including new product development; AML, anti-terrorism, and anticorruption efforts; risk management; and implementation of ADB environmental and social safeguards. Based on the successful utilization of the previous TAs and the continued need for financial sector capacity development, the proposed TA for South Asia (excluding India)[4] will continue to support financial sector development in these DMCs and enhance ADB's development impact.[5] The design and monitoring framework is in Appendix 1.

II. ISSUES

3. A strong financial sector is necessary to facilitate economic growth and financial inclusion, which underpin poverty reduction.[6] The development status of the financial sector varies throughout ADB DMCs. Although some South Asian DMCs are classified as lower middle-income countries, the level of domestic credit provided by the banking sector is more akin to that in low-income countries, indicating that financial sector development is lagging behind economic growth. Examples of key development needs in the financial sectors of two larger South Asian DMCs follow.

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1 ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and the Pacific*. Manila.

2 D. Zerah. 2011. Technical Assistance: A Development Tool Serving the Private Sector. *Private Sector and Development* . No. 11. Proparco, Paris.

3 ADB. 2006. *Technical Assistance for Capacity Building for Financial Institutions (Phase 1).* Manila; ADB. 2010. *Technical Assistance for Capacity Building for Financial Institutions (Phase 2).* Manila; ADB 2013. *Technical Assistance for Promoting Financial Inclusion and Stability in ADB's Transition Member Countries.* Manila. This TA is applicable to Armenia, Azerbaijan, Georgia, Kazakhstan, Mongolia, Tajikistan, and Turkmenistan.

4 TA for Private Sector Operations Department-funded financial institutions in India will be provided as an associated TA with the approval of the funding or through stand-alone TA specifically developed for India.

5 Concept clearance for this TA was obtained on 30 September 2014 from Vice-President (Private Sector and Cofinancing Operations).

6 J. Zhuang et al. 2009. Financial Sector Development, Economic Growth, and Poverty Reduction: A Literature Review. *ADB Economics Working Paper Series.* No. 173. Manila: ADB; ADB. 2004. *Enhancing the Fight against Poverty in Asia and the Pacific: The Poverty Reduction Strategy of the Asian Development Bank.* Manila.

4. **Sri Lanka.** The country has a relatively large number of banks, given the size of its economy; however according to International Finance Corporation estimates, 59% of small and medium-sized enterprises (SMEs) in Sri Lanka lack a bank account.[7] At the end of 2013, there were 33 banks (composed of licensed commercial banks and licensed specialized banks), and 58 nonbank financial institutions (NBFIs) operating in Sri Lanka. The government has introduced consolidation plans for NBFIs and intends to create larger banks through consolidation.[8] Compared to other parts of South Asia, Sri Lanka has a sizable nonbank financial sector; specialized financial institutions (e.g., pension, brokers), insurance, and other contractual savings institutions accounted for 30.3% of total assets at the end of 2013.[9] Nonetheless, Sri Lanka's insurance industry has many untapped segments, which most insurance companies have not taken into consideration because of their lack of product development and penetration. Less than 5% of households, shops, and individuals (for medical insurance) are insured in Sri Lanka.[10] Microfinance is also underdeveloped, despite a large unregulated market in microfinance, with numerous active microfinance cooperatives and nongovernment organizations. Sizable outreach into microfinance by state-owned banks has weakened the repayment culture and facilitated nonmarket-priced loans.[11] The sector needs to be consolidated, with improved risk management capabilities, new product development, and enhanced operational capacity via technology (e.g., mobile banking, tablets in microfinance and insurance) that will improve efficiencies, and broaden customer outreach.

5. **Bangladesh.** The country has a banking sector comprised of four types of scheduled banks. As of the end of 2013, four state-owned commercial banks held 26.7% of banking sector assets, four state-owned development financial institutions had 5.6% of the market, 39 domestically owned private commercial banks had 61.5% of total assets, while nine branches of foreign commercial banks held 6.2% of total assets.[12] The banking sector continues to face challenges. On average, state-owned banks have failed to match the performance of private and foreign commercial banks. The central bank remains focused on improving the governance and oversight of the banking sector by strengthening regulations, especially after facing significant fraud cases during 2011–2013.[13] Bangladesh also had about 700 microfinance institutions as of June 2013;[14] three-fourths of the microfinance supply is provided by four large microfinance institutions.[15] The microfinance industry has grown fairly consistently since the 1990s, with much higher growth rates of 15%–28% during 2004–2007. Key growth areas for microfinance institutions and NBFIs are insurance and leasing. The country's insurance penetration is just 0.90%. About 8 million people were covered in 2008, but the market has the

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[7] International Finance Corporation. 2011. *Sri Lanka Country Profile. Summary of Enterprise Survey Indicators. Enterprise Survey.* Colombo.

[8] Licensed commercial banks can accept demand deposits from the public and act as authorized dealers in foreign exchange unlike licensed specialized banks. There are 15 licensed commercial banks and 7 licensed specialized banks that are expected to be affected by Central Bank of Sri Lanka's plan to consolidate. Sources: ADB. 2013. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Unsecured Loan to Nations Trust Bank*. Manila; January; *Moody's Credit Outlook*. 2014. Sri Lankan Plan to Encourage Bank Consolidation is Credit Positive. 9 January.

[9] Government of Sri Lanka, Central Bank of Sri Lanka. 2014. *2013 Financial System Stability Review*. Colombo.

[10] H.D.H. Senewiratne. 2013. Enormous Potential In Untapped Insurance Segments–Schaffter. *Daily News.* 2 August. http://www.dailynews.lk/?q=business/enormous-potential-untapped-insurance-segments-schaffter

[11] World Bank. 2014. *Sri Lanka: Country Snapshot.* Colombo.

[12] Government of Bangladesh, Central Bank of Bangladesh. 2013. *Annual Report 2013.* Dhaka.

[13] Bangladesh Bank.

[14] Microcredit Regulatory Authority, Bangladesh. http://rashedchittagong.blogspot.com/2014/06/mfis-urge-govt-to-review-proposed-10pc.html

[15] Data for American Statistical Association is as of year ended 2013. Six percent of the total outstanding loans are for periods ranging from 1999 to 2013. Microfinance Information Exchange. Bangladesh Market Profile. http://www.mixmarket.org/mfi/country/Bangladesh.

potential to cover 87 million.[16] Meanwhile, leasing represents a dynamic type of business financing that is also well suited to the operations of microfinance institutions. Examples such as Grameen Bank's lease-hire program could be expanded across other NBFIs.[17] Much effort is needed to improve operational and risk management processes across both the non-banking and commercial banking sectors in Bangladesh.

6. 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.[18] 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.[19] These domestic credit ratios are considered low when compared to other countries in Asia— the ratio is 118% in Malaysia, and 148% in Thailand.[20] In many countries, banking sector assets have grown more slowly than GDP.[21] 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.[22] 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.[23] Small businesses lack access to credit from banks and NBFIs, with just 45% accessing lines of credit (footnote 21). 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.[24]

7. 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.[25] 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 polices are also needed, and the introduction of such systems will typically require external expertise.

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[16] World Bank. 2010. *Bangladesh Micro insurance Country Profile*. Washington, DC.
[17] Leasing of sewing machines and power looms for the textile industry.
[18] World Bank. Financial Inclusion Data for South Asia. http://datatopics.worldbank.org/financialinclusion/region/south-asia (accessed 26 November 2014).
[19] For Sri Lanka, the latest available statistic was for the fiscal year ending in 2012.
[20] World Bank. 2014. *World Development Indicators 2014*. Washington, DC.
[21] T. Yang and T. Shimada. 2010. Changes Developments in the Financial System of the Southeast Asian Economies. *OECD Journal: Financial Market Trends.* http://www.oecd.org/finance/financial-markets/financialmarkettrends-oecdjournal.htm
[22] ADB. 2013. *Asia SME Finance Monitor*. Manila.
[23] *The Philippine Star.* 2014. To Expand, Create More Jobs, SMEs Need More Nonbank Financing Options. 14 April.
[24] Yale Insights. http://insights.som.yale.edu/insights/how-do-you-sell-insurance-across-cultures
[25] Organisation for Economic Co-operation and Development. 2009. *Guide on Fighting Abusive Related Party Lending Transactions in Asia.* Paris.

III. THE CAPACITY DEVELOPMENT TECHNICAL ASSISTANCE

8. **Selection criteria.** ADB will identify and select the QFIs based on the following criteria.
   (i) The QFI should be a regulated financial institution (either private or public without a government guarantee) and the target of an ADB nonsovereign investment.[26]
   (ii) The QFI's top management should be committed to implementing business innovations and strengthening its operations.
   (iii) The QFI's management will put into place a project team to oversee the TA and agree to share up to 50% of the TA cost.[27]
   (iv) The QFI should have or be willing to put in place policies complying with ADB's governance standards, AML and anticorruption and anti-terrorism policies, and environmental and social safeguards.
   (v) ADB must be satisfied with the integrity due diligence carried out on the QFI.
   (vi) The Private Sector Operations Department (PSOD) must be providing financial support or plans to provide financial support to the QFIs receiving the TA.

9. **Country selection.** The TA will cover QFIs in all countries in South Asia (except India). As discussed, the financial sector in ADB's South Asia DMCs varies. The assessment of financial sector needs will be based upon PSOD evaluations, country partnership strategies, private sector assessments, and third-party research.[28]

A. Impact and Outcome

10. The impact will be the enhanced capacity of selected QFIs with respect to (i) corporate governance, "know-your-client" policies, AML, anti-terrorism counter-terrorist financing, and anticorruption efforts; (ii) financing strategy, including product development with respect to onlending to, for example, microfinance borrowers, SMEs, housing, infrastructure, education, renewable energy, insurance, and leasing; (iii) risk management; and (iv) environmental and social safeguards policies and practices. The outcome will be strengthened policies and procedures to ensure greater corporate governance and extended reach into microfinance, SMEs, housing, mobile banking, infrastructure, education, leasing and insurance markets.

B. Methodology and Key Activities

11. The methodology and key activities of the TA are dependent on the capacity development needs of the QFIs, as evaluated by PSOD during the due diligence for the ADB funding or guarantees. As such, not all key activities noted below will be undertaken, given the tailored nature of the TA. Likely activities include (i) improving corporate governance and internal controls; (ii) strengthening AML, anti-terrorism, and anticorruption policies; (iii) developing and strengthening innovative financing strategies, including new product development; (iv) improving risk management; and (v) maintaining or introducing an environmental and social management system.

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[26] Non-government-guaranteed financial sector institutions are public financial institutions that have no guarantees from the government or lender of last resort status.
[27] Smaller financial institutions with total assets of less than $75 million and new financial institutions with an operating history of 5 years or less may not be required to provide financial contributions to the TA.
[28] ADB. 2013. *Country Partnership Strategy: Nepal, 2013–2017*. Manila; ADB. 2012. *Interim Country Partnership Strategy: Bhutan, 2012–2013*. Manila; ADB. 2011. *Interim Country Partnership Strategy: Maldives, 2012–2013*. Manila; ADB. 2011. *Country Partnership Strategy: Bangladesh, 2011–2015*. Manila; ADB. 2011. *Country Partnership Strategy: Sri Lanka, 2012–2016.* Manila.

12. The outputs will be accomplished through training and capacity building. A detailed outline can be viewed in Appendix 3.

13. The TA will also support regional seminars to share TA experiences and results, and receive feedback for possible future interventions. Training programs will be held throughout the region, and in other facilities as needed. The TA will fund the travel expenses of resource persons. Representatives from the QFIs and additional eligible participants will pay for their own travel costs and related expenses.

C. Cost and Financing

14. The TA is estimated to cost $1,200,000, of which (i) $750,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources), and (ii) $480,000 will be financed on a grant basis by QFIs and administered by ADB. Details are provided in the cost estimates and financing plan (Appendix 2).[29]

D. Implementation Arrangements

15. 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.[30] 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.[31] The TA activities will be implemented with the help of international and national consultants and consultancy firms (Appendix 3).[32] 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.

IV. THE PRESIDENT'S DECISION

16. The President, acting under the authority delegated by the Board, has approved (i) ADB administering a portion of technical assistance not exceeding the equivalent of $450,000 to be financed on a grant basis by qualified financial institutions, and (ii) ADB providing the balance not exceeding the equivalent of $750,000 on a grant basis for Promoting Capacity Building in Financial Institutions in Emerging Countries in South Asia, and hereby reports this action to the Board.

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[29] Part of the cost of implementing the TA will be borne by the selected financial institution. On an individual basis and as determined by PSOD, ADB may require the TA recipient to fund up to 50% of the TA costs with the exception of smaller and new financial institutions.

[30] ADB may delegate parts of the TA to selected QFIs in compliance with ADB procedures and after consultation with ADB's Operations Services and Financial Management Department.

[31] ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

[32] The TA will use an output based contract and lump-sum amounts for out of pocket expenses to reduce administrative burden and improve efficiency.

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
Impact Enhanced capacity of selected QFIs in priority areas.[a]	Stronger corporate governance and internal controls as measured by changes or improvements in the policy of the respective financial institution from 2014 onwards. Increased ability to recognize money-laundering transactions and prevent funding to terrorists and corrupt activities as measured by changes or improvements in the policy of the respective financial institution from 2014 onwards. Development of financing strategies that increase access to finance from 2014 onwards. Adoption of an environmental and social management system in compliance with ADB safeguards requirements from 2014 onwards.	Published reports Consultations with the QFIs	**Assumption** New policies and procedures recommended are fully implemented. **Risk** Central Bank policies and/or oversight are weak.
Outcome Strengthened policies and procedures to ensure greater corporate governance and extended reach into microfinance, SMEs, housing, mobile banking, infrastructure, education, leasing, and insurance markets	Following receipt of the consultant report(s): Within 18 months, revised corporate governance and internal control policies and procedures established. Within 1 year, training sessions conducted on AML, and financing of terrorism and anticorruption efforts. Within 1 year, training sessions conducted on environmental and social assessment for senior and middle management and individuals directly responsible for these areas Within 18 months, revised strategies produced, including new product solutions for reaching microfinance, SMEs, housing, infrastructure, mobile banking, clean energy, leasing, education, and insurance markets	Final recommendations to the QFIs on policies and procedures for AML, anti-terrorism and anticorruption efforts, and environment and social management systems, and on strategies for microfinance, SMEs, housing, mobile banking, infrastructure, leasing, and/or insurance markets Consultations with the QFIs	**Assumption** The board and senior management of QFIs commit to and implement the revised or new policies, procedures, and strategies. **Risks** Lack of communication by senior management to staff on new policies and procedures, and/or weak follow through by general staff on new policies and procedures Weak market or economic performance that would hinder the ability of QFIs to enter or expand their presence in markets identified by ADB under the TA
Outputs 1. Selected QFIs receive information and recommendations on	Following receipt of the no-objection letter from the government:	Consultant reports Reporting from QFIs	**Assumptions** Willingness by the QFIs to cooperate in revising or introducing new policies,

Design Summary	Performance Targets and Indicators with Baselines	Data Sources and Reporting Mechanisms	Assumptions and Risks
improving corporate governance and internal controls; AML, anticorruption and anti-terrorism activities; developing and strengthening financing strategies, including product development; improved risk management and maintaining or introducing environmental and social standards 2. Up to three QFIs receive capacity development training in key areas of the TA.	Within 18 months, completed reports will be submitted to the senior management of the financial institution providing newly formulated or enhanced policies and procedures for corporate governance and internal controls, and/or AML, anti-terrorism, and anticorruption. Within 18 months, completed reports will be submitted to senior management of the financial institution providing a strategic plan for product development, extended reach, and improved risk management procedures. Within 12–18 months, workshops on environmental and social safeguards will be held and related policies will be formulated Within 12 months, a seminar will be held broadly addressing some of the issues related to key areas mentioned in the TA.		procedures and strategies. Banks in South Asia actively participate in a seminar addressing the key areas of the TA **Risk** Delays in acquiring needed information from financial institutions

Activities with Milestones	**Inputs**
1.1 Consultation with QFIs and processing of ADB funding on support (2014–2018). 1.2 Tailoring of TA to each financial institution's needs. 1.3 The firm will be responsible for preparing, as required (i) brief monthly reports with updates on implementation until the project is completed, and (ii) a draft final report 2 weeks before completion of the tasks under the respective TA component, initiated within 12 months after the no-objection letter has been received by the government. Recipients and ADB agree to the terms of a TA implementation agreement before ADB's approval of the TA. 1.4 Consultation with banks and other development banks engaged in target countries to determine needs for specified key areas of TA (2014–2018). 2.1 Recipients and ADB agree to the terms of a TA implementation agreement before ADB's approval of the TA. 2.2 At least 2 ADB deals will be combined with a TA for QFIs.	**ADB: $750,000** **Qualified financing institutions: $450,000**

ADB = Asian Development Bank, AML = anti-money laundering, QFI = qualified financial institution, SMEs = small and medium-sized enterprises, TA = technical assistance.

[a] These priority areas are: (i) corporate governance, "know-your-client" policies, AML, anti-terrorism counter-terrorist financing, and anticorruption efforts; (ii) financing strategy, including product development with respect to onlending to, for example, microfinance borrowers, SMEs, housing, infrastructure, students, renewable energy, insurance and leasing; (iii) risk management; and (iv) environmental and social safeguards policies and practices.

Source: Asian Development Bank

COST ESTIMATES AND FINANCING PLAN

($'000)

Item	Amount
A. Asian Development Bank[a]	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	527.0
ii. National consultants	75.0
b. International and local travel	75.0
c. Reports and communications	30.0
2. Training, seminars, and conferences	27.0
3. Miscellaneous administration and support costs	2.0
4. Contingencies	14.0
Subtotal (A)	**750.0**
B. Qualified Financial Institutions[b]	
1. Consultants	200.0
2. Seminars and training	50.0
3. Miscellaneous administration and support costs	175.0
4. Contingencies	25.0
Subtotal (B)	**450.0**
Total	**1,200.0**

Note: The technical assistance (TA) is estimated to cost $1,200,000 of which contributions from the Asian Development Bank and qualified financial institutions (QFIs) are presented in the table above. The QFIs will provide counterpart support in the form of counterpart staff, office and housing accommodation, office supplies, domestic transportation, and other in-kind contributions.

[a] Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources).

[b] The QFIs will provide parallel financing or in-kind contributions. Details will be stipulated in TA agreements.

Source: Asian Development Bank estimates.

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Corporate Governance and Internal Controls

1. International firms will be recruited that have significant experience in corporate governance to ensure that proper internal oversight structures are in place.[1] Each engagement will require approximately two international consultants intermittently for 2 to 6 person-months in total, depending on the extent of the work needed for a given financial institution. Up to three engagements for this module are estimated. For each engagement, the firm will perform the following tasks:

(i) support ADB in reviewing the existing corporate governance structure;
(ii) assist the financial institution in identifying key gaps between the existing corporate governance framework and international best practice standards with regard to the application of good corporate governance standards; and roles and responsibilities of supervisory council, directors, management board, and management support functions with regard to risk management, internal audit, legal compliance, and regulatory compliance; and
(iii) based on the above, assist the financial institution in preparing an action plan for strengthening corporate governance at various levels, including at the supervisory council, management board, and management support functions, and for post-merger integration.

B. Anti-Money Laundering, Anti-Terrorism, and Anticorruption Efforts

2. For this module international firms will be recruited with relevant experience and qualifications;[2] one international firm will be selected for each engagement with an institution through the consultant qualification selection process in line with ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). The engagement will require approximately two international consultants intermittently for approximately 2 person-months in total. Up to three engagements for this module are estimated.

3. For each engagement, the firm will carry out the following:

(i) advise the institution and ADB on internationally accepted best practices for anti-money-laundering, anti-terrorism, and anticorruption efforts in commercial banks;
(ii) assess the current anti-money-laundering, anti-terrorism, and anticorruption policies and procedures, and identify those areas where current policies and procedures are acceptable and follow best practices; where they do not, make initial recommendations to ensure best practices are in place;
(iii) based on the above, and in light of best practices, prepare a report on observations and recommendations that includes recommendations on amending or changing the anti-money-laundering, anti-terrorism, and anticorruption policies and procedures; and
(iv) provide advice, contacts, and coordination support for the international training component, and coordinating support as needed.

[1] Consultants should have professional qualifications in financial crime prevention. Required qualifications and experience may change depending on the actual needs of the financial institution.

[2] Consultants should have professional qualifications in anti-money laundering. Required qualifications and experience may change depending on the actual needs of the respective financial institution.

C. Financing Strategies

4. Up to three individual international consultants will be selected for this module.[3] Up to two consultants will be selected for each engagement with a given institution for approximately 2 to 6 person-months intermittently in total. Up to three engagements for this module are estimated.

5. For each engagement, the consultants will:
   (i) review existing microfinance, small and medium-sized enterprises (SMEs), housing, infrastructure, clean energy, mobile banking, leasing, educational and/or insurance products;
   (ii) review financing and product needs of the customer base and assess other potential customer segments;
   (iii) provide international benchmarks for (a) microfinance, SMEs, housing, infrastructure, clean energy, mobile banking, leasing, educational and/or insurance products; and (b) relevant products, risk mitigation and concerns;
   (iv) develop a microfinance, SME, housing, education, infrastructure, clean energy, mobile banking, leasing, and/or insurance product strategy;
   (v) assist in the design of financing products; and
   (vi) examine ways to optimize the balance sheets of financial institutions to achieve sustainable growth in terms of capital structure and asset and liability management.

D. Risk Management

6. International firms will be recruited that have significant experience in evaluating operations risk management and internal controls to ensure that the proper internal oversight structures are in place (footnote 4). One international firm will be selected for each engagement with a given financial institution through the consultant qualification selection process in accordance with ADB's Guidelines on the Use of Consultants. The firm will have prior experience on similar projects in financial institutions in the country in which the technical assistance (TA) is being employed. Each engagement will require approximately two international consultants intermittently for 2 to 6 person-months in total, depending on the extent of the work needed for the given financial institution. Up to three engagements for this module are estimated.

7. For each engagement, the firm will:
   (i) advise the financial institution and ADB on internationally accepted best practices for risk management in commercial banks;
   (ii) support ADB in (a) reviewing the institution's policies and procedures on risk management and internal control, including the draft operations risk management (ORM) framework prepared by the institution, as well as other credit policies and, in particular, the critical components and methodology; (b) evaluating which areas in the ORM framework and policies are acceptable and follow best practices in their current form; and (c) making initial recommendations to reorient

[3] International consultants should have university degrees in economics and finance, as well as banking experience. Required qualifications and experience may change depending on the actual need of the respective financial institution.

areas in the framework that do not follow best practices, to ensure best practices are in place.

(iii) assess the internal controls outlined in the ORM framework and determine whether they are sufficient and properly integrated into the ORM framework;

(iv) examine the organizational structure, and particularly the extent of separation of managerial roles and responsibilities between the various departments and risk management groups or committees, and assess whether there are sufficient safeguards to ensure adequate internal controls and oversight;

(v) based on the above, and in light of best practices, prepare a report on observations and recommendations; the report should include recommendations on amending or changing the ORM framework, including key definitions and streamlining of the current system; and

(vi) provide advice, contacts, and coordination support for the international training component if needed.

E. Environmental and Social Safeguards Consultant

8. Six to eight individual national consultants will be selected for this module.[4] Up to two consultants will be selected for each engagement with a given institution, for approximately 1 person-month each. Up to three engagements for this module are estimated.

9. For each engagement, the consultants will undertake the following tasks:

(i) advise the institution on internationally accepted best practices for environmental awareness and safeguards in commercial banks;

(ii) provide advice, contacts, and coordinating support, as needed, for the international training component; and

(iii) assist in drafting an environmental and social management system in compliance with ADB's environmental and social safeguard policies.

10. Additionally, a 1-day training seminar will be held for approximately 20–25 participants, who will be credit officers with underwriting responsibility in the financial institution's credit review process. Participants must be in managerial positions so that they have the possibility of disseminating the seminar content to other financial institution staff. The suggested seminar outline will include:

(i) **Session 1: Environmental and social issues in the institution's transactions** (about 1 hour). The presentation will aim to answer why the institution needs to consider environmental and social aspects in its business. It will cover environmental and social risks and opportunities in the institution's transactions, with examples of environmental and social risks.

(ii) **Session 2: Laws, regulations, and standards on environmental assessment** (about 3 hours). The speakers will give an overview of specific national environmental regulations and their implications for the institution's business. These include

(a) risks for and obligations of lenders under national environmental and other regulations and laws with respect to environmental issues;

(b) national requirements for environmental assessment of greenfield projects and refinancing of existing projects;

[4] Experience in developing an environmental and social management system is required.

(c) requirements for environmental assessment and implications for corporate lending;
(d) environmental risks and their assessment in other banking areas, e.g., retail, asset management, capital markets, and advisory; and
(e) implications for the institution's business.

(iii) **Session 3: ADB's approach to environmental assessment** (about 1 hour). The speaker will cover ADB's environmental requirements as applied to ADB-financed projects, compare ADB's standards to those of other financial institutions and the Equator Principles, and reference them to national policies.[5]

(iv) **Session 4: Concepts and principles of environmental management and an environmental management system, as well as environmental management practices in selected financial institutions** (2 hours). The presentation will (a) cover the concepts and principles of environmental management and an environmental management system in financial institutions, and (b) provide examples and case studies of such systems and practices in selected financial institutions. The presentation will show clearly how an environment management system should work in a financial institution while referencing this to the particular institution's own regulatory and business environment, as well as to the context of its businesses (e.g., retail, corporate).

(v) **Session 5: Next steps** (1.5 hours). The speaker will present ideas on the next steps that the institution should take toward institutionalizing environmental management in its organization. This session will be used as an open forum for the participants to give their views and suggestions regarding those next steps.

11. The training seminar will be evaluated as follows:

(i) Measures of efficiency, including:
(a) performance of the speakers (observations and participants' evaluations),
(b) participation of the participants in the open discussion (observation),
(c) percentage of participants attending all sessions (records),
(d) satisfaction of the participants (participants' evaluations), and
(e) punctuality of the presentation and participants (observation and records).

(ii) Measures of outcome or effectiveness, including: (a) method—a structured questionnaire and interviews with randomly selected participants; (b) benchmark—knowledge and understanding of participants on the subject before the seminar, which should assessed prior to the seminar using a well-structured questionnaire; and (c) seminar rating.

F. Training Conferences for Qualified Financial Institutions

12. ADB may also require training seminars to be conducted, which will focus on key areas of the modules noted in paras. 1–9. The contents of the seminar will be tailored to the needs of the banks in these respective countries and the TA work that other development banks are undertaking. Given the length of the seminar, the topics addressed will be introductory and geared to the prevailing level of financial sector development.

[5] The Equator Principles is a risk management framework adopted by financial institutions for determining, assessing and managing environmental and social risk in projects and is primarily intended to provide a minimum standard for due diligence to support responsible risk decision-making.

G. Reporting Arrangements

13. The firm will be responsible for preparing, as required (i) brief monthly progress reports with updates on implementation until the project is completed, and (ii) a draft final report 2 weeks before completion of the tasks under the respective TA component. The draft final report will be revised and resubmitted after receiving comments from ADB and the institution.