



# Technical Assistance Report

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Project Number: 50171-002  
Transaction Technical Assistance (TRTA)  
December 2017

## Pakistan: Capacity Building for Khushhali Bank Limited

This is the abbreviated version of the document that excludes commercially sensitive and confidential business information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 19 December 2017)

Currency unit	–	Pakistani rupee (PKR)
INR1.00	=	\$0.0091
\$1.00	=	PKR109.88

## ABBREVIATIONS

ADB	–	Asian Development Bank
KBL	–	Khushhali Bank Limited
TA	–	Technical Assistance

## NOTES

- (i) The fiscal year (FY) of Khushhali Bank Limited ends on 31 December. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2013 ends on 31 December 2013.
- (ii) In this report, "\$" refers to US dollars.

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## I. THE ONGOING PROJECT

1. On December 12 2016, the President approved a loan of up to \$20,000,000 to Khushhali Bank Limited (KBL) for Expanding Access to Credit for Agriculture and Micro, Small, and Medium-Sized Enterprise (MSME) Borrowers in Pakistan. 25% of ADB's funding will be targeted to female borrowers. The loan agreement was signed on May 22, 2017.

## II. THE TECHNICAL ASSISTANCE

### A. Justification

2. The TA will help KBL increase its capacity to provide loans to MSMEs and farmers in order to realize their investment needs. The ADB TA contribution is only a small part of KBL's overall investment and KBL will be contributing two dollars from its own resources for every dollar of ADB funds spent.

### B. Outputs and Activities

3. **Output 1: Establishment of a Training Academy.** KBL is the largest microfinance bank in Pakistan with nearly two million clients. It is growing at a rate of 30% annually. In order to serve these clients, KBL employs 3,000 staff, of which 1,600 are loan officers. This requires constant investment in training and skills development both at the corporate office and across the distribution network comprising 150 branches spread across Pakistan. Retention of staff, in particular loan officers, is a key challenge for KBL as its staff is highly regarded in the market. In addition, given KBL's substantial growth, expansion of number of staff requires ever increasing training needs to ensure that new staff has the right skills. KBL's budget for training for FY2017 is PKR 56 million. Currently, this training is executed by the HR department, as well as the retail department, while certain training is executed through outsourcing arrangements with specialized institutes. Training takes place throughout the year.

4. The task has become challenging both in terms of logistics, cost, and maintenance of quality. KBL is therefore going to establish a specialized training academy that will be equipped with the management, faculty, curriculum as well as technology-based tools to support the growing requirements of the bank in terms of quality and cost effectiveness. The academy will be established in-house and specialized consultants will be engaged to conduct training sessions.

5. **Output 2: Review and Reform of the Performance Planning, Coaching and Evaluation System (PPCE).** KBL will carry out a review and reform of the PPCE system with the purpose of implementing more objectivity and transparency and ensuring that performance is recognized and rewarded. Given the expansion of KBL, the current PPCE system is no longer adequate to serve the needs of the growing organization. KBL will engage a consulting firm to help establish a state-of-the-art PPCE system that will allow KBL to manage a motivated workforce and establish a high performance culture within the organization.

6. **Output 3: Development of a Digital Finance strategy.** The Pakistani market has been serviced by digital finance providers since 2009 with the advent of Tameer Easy Paisa (Pakistan's first mobile based branchless banking service), with a focus on digital bill payments and remittances. However, further development of digital finance products is needed to adequately serve the market and expand access to finance. Few banks to date have started exploring the development of new credit and savings products and other services to be offered through digital

finance - key areas that KBL is focused on. KBL is currently in the process of upgrading its IT infrastructure and has already implemented a new software system. KBL will engage a consulting firm to help with the development of a digital finance strategy which will be implemented simultaneously with the broader IT infrastructure upgrade.

#### **7. Output 4: Innovation of Products and Services for the Rural and Agriculture Sector.**

KBL is one of the top ten lenders to rural areas in Pakistan and the largest amongst microfinance banks with annual disbursements of over PKR 30 billion. The rural and agriculture sector is vital for food security, exports as well as livelihoods for a large proportion of the Pakistani population and is also a policy priority for the central bank. Innovation of products and services offered by the financial sector to rural areas and the agriculture sector has been minimal. Few initiatives targeted specifically to the agriculture sector and rural borrowers have been explored and KBL sees great opportunities to be a market leader of innovation in this area. KBL will engage a specialized consulting firm to assist with the development of new and innovative products and services specifically for agriculture and rural borrowers.

### **C. Cost and Financing**

8. The TA is estimated to cost \$1.5 million, of which \$500,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-VI). The key expenditure items are listed in Appendix 1.

### **D. Implementation Arrangements**

9. Administration of the TA will be delegated to Khushhali Bank Limited, which will be the executing agency. KBL's Procurement department will manage the TA and has adequate management capabilities and processes in place to successfully execute the TA. KBL will report internal audit findings to ADB on an annual basis.

10. ADB will disburse the TA funds directly to KBL through an advance payment facility, following ADB's Technical Assistance Disbursement Handbook (2010, as amended from time to time). TA implementation is expected to begin in January 2018 and be completed by 31 October 2020.

11. The execution of the TA requires the selection of consultants. ADB will monitor the selection and procurement steps, check that the use of funds comply with relevant ADB policies, and check that outputs for development effectiveness are on track.

12. KBL and ADB will enter into a TA agreement that sets out the terms and conditions for the TA, including KBL's responsibilities in selecting, contracting, and managing the consultants; and auditing procedures in a manner acceptable to ADB. The TA agreement will (i) refer to relevant agreed selection and contracting frameworks to be used, (ii) confirm ADB's concurrence at each relevant stage of the selection process, and (iii) require documentation of the execution of the TA; Procurement (including consulting services) to be financed by ADB TA Funds will follow ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time).

13. KBL will provide ADB with annual TA progress reports, including information on the

- (i) identification of solutions and consultation with ADB;
- (ii) preparation of implementation plans, including the development, testing, and rollout of new products and services and staff training; and

- (iii) execution, performance tracking, and monitoring of the implementation plans.

**Table 1: Implementation Arrangements**

Aspects	Arrangements		
Indicative implementation period	January 2018–October 2020		
Executing agency	Khushhali Bank Limited (KBL)		
Consultants	To be selected and engaged by executing agency		
	QBS	Output 1 & 2	\$125,000
	QBS	Output 3	\$200,000
	QBS	Output 4	\$125,000
Disbursement	<p>The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).</p> <p>Khushhali Bank Limited will pay consultants through the advance payment facility or reimbursement. The terms thereof will be agreed in the TA Agreement.</p>		

Sources: Asian Development Bank estimates.

14. **Consulting services.** In addition to the expertise criteria set out in the applicable TORs, in order for an individual consultant or a consulting firm to qualify as Consultant, the following eligibility criteria shall be met:

- (i) A Consulting Firm shall be incorporated in an ADB member country;
- (ii) An Individual Consultant, either engaged individually or through a consulting firm, shall be a citizen of one of the ADB member countries;
- (iii) A Consultant shall be competent and qualified for Services in accordance with the terms of the TA Agreement to be entered into with KBL;
- (iv) An Individual Consultant shall not be named on ADB's Sanctions List or sanctioned by ADB pursuant to ADB's Integrity Principles and Guidelines (2015, as amended from time to time);
- (v) A Consulting Firm, including its personnel, shall not be named on ADB's Sanctions List or owned or controlled by a person or a legal entity that is named on the International Sanctions List or sanctioned by ADB pursuant to ADB's Integrity Principles and Guidelines (2015, as amended from time to time); and
- (vi) An Individual Consultant shall not be a representative or an employee of a government organization, or a Related Party of KBL, its subsidiaries or its staff.

15. KBL will select consulting firms through Quality Based Selection (QBS) and will use either time-based contracts or lump sum contracts, depending on the scope of the assignment. KBL shall not use any ADB TA Funds for payment of any applicable taxes, and shall be solely liable for payment of any such taxes from its own funds.

## E. Governance

16. ADB has carried out a procurement capacity assessment of KBL which found KBL's procurement procedures to be satisfactory. Integrity due diligence has been conducted in accordance with ADB's Integrity Due Diligence Guidelines for Nonsovereign Operations as part of PSOD's due diligence for the loan that was approved in December 2016.<sup>1</sup> ADB's review of the ownership structure does not give ADB cause to believe that such entity has been established,

<sup>1</sup> ADB. 2015. *Integrity Due Diligence Guidelines for Nonsovereign Operations*. Manila.

or is being used for cross-border tax evasion, money laundering, or terrorism financing in the jurisdictions involved in the investment (see the supplementary linked document for details).

### **III. THE PRESIDENT'S DECISION**

17. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$500,000 on a grant basis to Khushhali Bank Limited for Capacity Building for Khushhali Bank Limited, and hereby reports this action to the Board.