ADB

Report and Recommendation of the President to the Board of Directors

Project Number: 43934
November 2010

Proposed Equity Investment
ShoreCap II Limited

In accordance with ADB's public communications policy (PCP, 2005), this abbreviated version of the RRP excludes confidential information and ADB's assessment of project or transaction risk as well as other information referred to in paragraph 126 of the PCP.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
BA	–	bachelor of arts
BS	–	bachelor of science
CEO	–	chief executive officer
CGAP	–	Consultative Group to Assist the Poor
DMC	–	developing member country
ECP	–	Equator Capital Partners
EIA	–	environmental impact assessment
ESMS	–	environmental and social management system
FDIC	–	Federal Deposit Insurance Corporation
FI	–	financial intermediary
FMO	–	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden (Netherlands Development Finance Company)
GDP	–	gross domestic product
IFC	–	International Finance Corporation
IPP	–	indigenous peoples plan
MBA	–	master of business administration
MFI	–	microfinance institution
PRC	–	People's Republic of China
SBB	–	small business bank
SBK	–	ShoreBank Corporation
SCM	–	ShoreCap Management
SCE	–	ShoreCap Exchange
SEMS	–	social and environmental management system
SME	–	small and medium-sized enterprises
UK	–	United Kingdom
US	–	United States

NOTE

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

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[CONFIDENTIAL INFORMATION HAS BEEN DELETED]

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I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed equity investment in ShoreCap II Limited (the fund) of up to $10 million, not to exceed 25% of the fund's total capital commitments, whichever is less, and not resulting in ADB being the single largest investor in the fund. The design and monitoring framework is in Appendix 1.

II. BACKGROUND AND RATIONALE

A. Economic and Sector Background[1]

2. Emerging market financial institutions are growing at a rapid rate. However, this rate of growth is not sufficient to accommodate the demand for capital and banking products, which is growing at a far greater rate throughout developing markets. Asian and African microfinance institutions (MFIs) and small business banks (SBBs) that are able to attract investment capital commensurate with their potential size can increase their assets, expand their product lines, and improve their operational efficiency and management capabilities to capitalize on the development that is taking place around them. The fund is being established to invest in MFIs and SBBs that lend to poor and under-banked populations in the developing markets of Asia and Africa.

3. **Microfinance institutions.** MFIs provide financial services (loans, savings accounts, insurance, etc.) to poor and underserved or under-banked populations in developing economies. One of the most popular microfinance products has been "microcredit," or relatively small loans that range from as little as $50 to several thousand dollars, and can even include amounts that are substantially higher. The borrowers are microenterprises that use the funds to establish or expand small-scale businesses. The microlending modality has been highly successful in extending finance to previously economically disenfranchised people.[2] According to the State of the Microcredit Summit Campaign Report 2009, 3,552 MFIs reported reaching more than 154 million clients worldwide at the end of 2007.[3] However, the target population for microfinance services (individuals living on less than $2 per day and generally operating in the informal economy) is estimated at about 500 million families (nearly 3 billion people). The supply–demand gap for microfinance is thus still huge.[4]

4. **Asian microfinance institutions.** Asian MFIs, leveraging high staff productivity and operating in densely populated regions, dominate the global market in scale and reach. Bangladesh, in particular, has managed to reach 35% of the country's poor, while MFIs in Sri Lanka and Viet Nam serve 25% of those countries' poor.[5] In 2006, Asian MFIs served more than 35 million borrowers and took savings from 47 million depositors. Several individual Asian MFIs serve several million clients each. However, many potential microfinance clients continue to lack access to basic financial services. Even in Bangladesh, Sri Lanka, and Viet Nam, which have some of the highest microfinance penetration rates among the poor, 65% of the poor

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1 Unless otherwise noted, market information (particularly on the small business banking sector) is derived from fund manager's information memorandum. ShoreCap II Limited. 2009. *Private Placement Memorandum: Investing in Financial Institutions Supporting Small Businesses and Microenterprises in Developing Transitional Economies.* Chicago.

2 Non-credit services provided by MFIs, such as savings accounts and insurance also have powerful potential to enhance low-income persons' social and economic security by helping them build assets and protect against unforeseen crises.

3 Microcredit Summit Campaign. 2009. *State of the Microcredit Campaign Report 2009*. https://promujer.org/espanol/dynamic/our_publications_5_Pdf_EN_SOCR2009%20English.pdf

4 CGAP. Global Estimates. http://www.cgap.org/p/site/c/template.rc/1.11.1792/

5 It should be noted that microfinance penetration can be measured in several ways; this statistic is specific to the percentage of poor people served, rather than the percentage of the overall population served.

population in Bangladesh and 75% of the poor population in Sri Lanka and Viet Nam are left unserved. In Cambodia and Indonesia, MFIs have reached only 10% of potential clients, while in Afghanistan, India, and the People's Republic of China (PRC), the number is significantly smaller.[6] The highly concentrated nature of microfinance in Asia underscores this point. Of the total number of borrowers of the more than 300 MFIs worldwide that reported to the MicroFinance Information eXchange in 2005, more than 50% belonged to three giants of microfinance—Bank Rakyat Indonesia, BRAC Bank, and ASA.[7] Demand for microfinance products in Asia continues to far outstrip supply, pointing to a need for more and larger MFIs.

5. **Funding for Asian microfinance institutions.** Asian MFIs tend to use substantial debt (primarily commercial debt) to fund their businesses. Debt–equity ratios in the region average about 4.9:1; the global median is 3.2:1. As noted in the *Asia Microfinance Analysis and Benchmarking Report 2008*, "while the global norm for microfinance is the highly capitalized MFI, the median Asian MFI held capital equivalent to just 15.2% of its asset base. This small capital cushion was 40% smaller than that of MFIs in Africa, Eastern Europe/Central Asia and Latin America and the Caribbean, where institutional capital backs a quarter of total assets."[8] This indicates that many institutions have thin capital bases and will need additional equity to bolster profit margins and increase retained earnings.

6. In its 2008 report, the Consultative Group to Assist the Poor (CGAP) stated that total funding commitments to microfinance were $14.8 billion, with $3.65 billion allocated to South Asia and $1.1 billion to East Asia and the Pacific. Nearly two-thirds of this total was in the form of debt, with grants comprising 17%; equity represented only 11% of the total.[9] The percentages of equity financing in South Asia and East Asia were lower still, with only 1% of South Asian financing and 10% of East Asian financing coming in the form of equity commitments.[10] Indeed, the CGAP noted wide variation in how much private sector foreign investment flows into microfinance in different parts of the world. It further noted that "the reality is that the bulk of foreign investment is going to the top 150 MFIs in about 30 countries and two regions: Latin America and Eastern Europe and Central Asia account for 75% of cross-border [private sector] capital flows. Africa and Asia, where poverty and potential microfinance demand is highest, receive only 6% and 7% of foreign investment, respectively."[11]

7. **Investment opportunity**. The huge need for microfinance services described in paras. 2–6, combined with the prevailing lack of equity capital available to MFIs, creates an investment niche for the fund. At least 40% of the "investment-ready" MFIs are believed to be in the fund's target regions,[12] with the number of target investment opportunities expected to grow as more nongovernment organizations transition into commercial banks. The most attractive investment opportunities for the fund in the MFI space are (i) potential consolidation among one or more MFIs in rapidly growing markets; (ii) increased capital needs for branch expansion or regulatory compliance; (iii) transformation of nongovernment organizations and rural banks into

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[6] International Finance Corporation. Microfinance in Asia. http://www.ifc.org/ifcext/mifa.nsf/Content/Microfinance_in-Asia

[7] H. Montgomery and J. Weiss. 2005. Great Expectations: Microfinance and Poverty Reduction in Asia and Latin America. *ADB Institute Research Paper Series.* No. 63. Tokyo: Asian Development Bank Institute.

[8] Microfinance Information Exchange. 2008. *Asia Microfinance Analysis and Benchmarking Report 2008.* http://www.themix.org/sites/default/files/2008%20Asia%20Microfinance%20Analysis%20and%20Benchmarking%20Report.pdf

[9] CGAP. Microfinance Funder Survey. http://www.cgap.org/p/site/c/template.rc/1.11.45737/

[10] CGAP. 2008. *Microfinance Funder Survey Global Results.* http://www.cgap.org/gm/document-1.9.6303/Regional%20Snapshots%20-%20Global%20-%207Nov08-rev2.pdf

[11] CGAP. 2008. *Foreign Capital Investment in Microfinance—Balancing Social and Financial Returns*. http://www.cgap.org/gm/document-1.9.2584/FN44.pdf

[12] Fund manager's estimate.

commercial banks; and (iv) downscaling within the commercial banking sector through creation of separate microfinance departments or business units.

8. **Small and medium-sized enterprises.** Small and medium-sized enterprises (SMEs) account for a large percentage of all economic activity in developing economies and are a major source of non-farm income and employment. According to the World Bank Institute, "in low-income countries with GDP per capita between $100 and $500, SMEs account for more than 60% of GDP and 70% of total employment; in middle-income countries they produce close to 70% of GDP and 95% of total employment. Even within Organisation for Economic Co-operation and Development (OECD) countries, SMEs comprise the majority of firms and contribute over 55% of GDP and 65% of total employment." For any firm—from the smallest microenterprise to the largest corporation—to thrive, it needs a functional business environment, with low legal and regulatory burdens, a liberal banking and financial sector, and stable macroeconomic conditions. However, key to growth for SMEs, which are generally more credit-constrained than larger firms, is access to credit. According to the World Bank Institute, "the World Development Report 2005 indicates that small firms obtain only 19% of their financing from external sources while large firms meet up to 44% of their financing needs through external sources."[13]

9. **Small business banks**. As the most successful microenterprises expand, they require growth capital beyond what MFIs and microfinance programs can provide. (For the fund's purposes, the small business segment includes enterprises that are too large for traditional MFIs, but too small to be eligible for conventional bank financing.) In many developing countries, small firms have even less access to medium- and long-term loans and other financial services than microenterprises and self-employed individuals do. The fund manager, Equator Capital Partners (ECP, paras. 20 and 22), believes that this capital gap is partially caused by too few lending institutions targeting small businesses.

10. Fortunately, the number of specialized small business financial institutions is on the rise as small business financing becomes more of a priority for governments desiring a strong building block for their countries' economic expansion, and for banks seeking bottom-line improvements via the higher returns on assets generated by SME portfolios. No source provides frequently updated data on the number of existing SBBs, but estimates indicate that at least 500 SBBs operate in the fund's target regions. Based on the fund manager's experience in Africa and Asia, SBBs' demand for equity capital far outstrips the supply. Banks that have small business lending operations will need equity to expand their business lines, while banks that lack this product will require substantial equity to launch competitive small business banking units. The fund will be well-positioned to fill the emerging demand for equity among SBBs.

11. **Competitive landscape.** Worldwide, at least 100 investment vehicles specialize in microfinance.[14] A number of these are relatively small (less than $25 million), and the majority are concentrated in Latin America, Central Asia, and Eastern Europe.[15] The fund manager believes that investment opportunities still abound in microfinance, especially in sub-Saharan Africa and Asia, where microfinance investment vehicles dedicate only 8% (in sub-Saharan Africa) and 7% (in Asia) of their portfolio investments.[16] Indeed, of the 101 microfinance investment funds that exist globally, only about 10 funds would directly compete with the fund. The fund manager's experience, track record, and integrated capacity-building approach to

[13] World Bank. Development Outreach. http://www.devoutreach.com/mar05/SpecialReport/tabid/1121/Default.aspx
[14] CGAP. 2007. Microfinance Investment Vehicles Brief. Washington, D.C.
[15] X. Reille. 2007. CGAP MIV Benchmarking Report 2007, E. Littlefield. 2007. The Changing Face of Microfinance Funding. *Forbes*. 20 December.
[16] X. Reille. 2007. CGAP MIV Benchmarking Report 2007.

addressing the economic and operational issues of SBBs and MFIs (described in more detail below) will serve to differentiate the fund from the competition.

B. Investment Identification and Description

12. In 2004, ADB made a $2.5 million investment in ShoreCap International (ShoreCap I—the fund manager's first fund).[17] In June 2007, ADB provided ShoreCap Exchange (SCE), the fund's nonprofit capacity-building affiliate, with a technical assistance grant of $300,000 to support its ongoing activities.[18] ADB has supported the fund manager since its 2004 investment in ShoreCap I and maintains a close relationship with its management through both ShoreCap I and SCE, and thus was a natural prospective investor in the new fund. Other microfinance equity funds might also be worthy investment targets, but based on the positive economic and development outcomes of the ShoreCap I investment, ADB feels confident providing ongoing support to the fund manager.

C. Alignment with ADB Strategy and Operations

13. **Alignment with Strategy 2020.** ADB's Strategy 2020[19] identifies private sector development as a key driver of change in Asia, and financial sector development as one of five core specializations that support the bank's agenda. Strategy 2020 states that "development of the finance sector is essential to ensuring sustainable private sector-led economic growth."[20] The document also clearly identifies key constraints to developing DMC capital markets and financial systems. "[The real economy of the region] is led by the private entities, which need risk capital, particularly for start-up companies and small and medium-sized enterprises. The underdeveloped capital market limits investment for projects with long gestation periods…"[21] Strategy 2020 thus highlights the absence of risk capital as a constraint to the balanced development of capital markets and financial systems in the region. By supporting this fund, ADB will be supporting the vision enshrined in Strategy 2020 of developing financial systems throughout the region.

14. **Alignment with the Poverty Reduction Strategy.** ADB's central mission of reducing poverty includes implementation of strategies to (i) promote microfinance, (ii) support SMEs, (iii) enhance financial markets, and (iv) encourage private-sector-led initiatives to address these goals. This project will directly address all three key elements of ADB's Poverty Reduction Strategy: (i) pro-poor, sustainable economic growth (through loans to micro and small enterprises provided by the fund's investee MFIs and SBBs; (ii) social development (by ensuring that investee institutions reach out to poor and underserved areas of their economies and embrace socially sound practices); and (iii) good governance (a core part of the fund's investment strategy is that it will take an active role in promoting good governance within investee institutions).

15. **Alignment with microfinance sector strategy and activities.** In 2000, ADB approved the Microfinance Development Strategy,[22] which provides a comprehensive framework to guide ADB's microfinance operations. The strategy states that "strong retail institutions committed to outreach and sustainability are essential for extending the permanent reach of financial services

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[17] ADB. 2004. *Report and Recommendation of the President to the Board of Directors on a Proposed Equity Investment on ShoreCap International Limited*. Manila.
[18] ADB. 2007. *Technical Assistance for Capacity Building for Small Business and Microfinance Banks*. Manila.
[19] ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.
[20] Footnote 19, p. 20.
[21] Footnote 19, p. 9.
[22] ADB. 2000. *Finance for the Poor: Microfinance Development Strategy.* Manila.

and to have a significant impact on poverty reduction. Thus, building the capacity of institutions with a commitment to reach the poor is vital." The fund's objectives of investing in strong retail MFIs and SBBs, and building capacity through the activities of SCE (para. 39) are fully aligned with the Microfinance Development Strategy. The themes articulated in ADB's Private Sector Development Strategy[23] are similarly consistent with the fund's activities; the strategy prioritizes the promotion of efficient financial markets—particularly sound financial intermediaries such as banks. Related to this effort, and as part of its Poverty Reduction Strategy, ADB seeks to promote "sound and efficient banking systems and capital markets," since these are seen as "indispensable for macroeconomic stability, mobilizing savings, and ensuring availability of long-term financing, as essential requirements for pro-poor growth." This project aligns well with ADB's prior investment with the fund manager to promote microfinance and SME lending, and the above-mentioned ADB sector strategies, and represents a good fit for ADB's involvement. The proposed investment is also complementary to a proposed microfinance risk participation program currently under processing. Under this program, ADB further seeks to promote development through the expansion of commercial bank lending to MFIs in ADB's DMCs, in turn providing an increase in provision of financial services to the underserved poor population segment.

D. Development Impact

16. ADB's mission is to reduce poverty in DMCs, and each intervention that the bank undertakes should relate—directly or indirectly, immediately or over the long-term—to achieving that mission. In this transaction, ADB's investment in the fund is ultimately intended to help increase the economic contribution of microfinance clients and small businesses to growth in the region, to increase access to finance by women entrepreneurs, and to improve corporate governance at SBBs and MFIs. As detailed in the design and monitoring framework (Appendix 1), the project will link to these goals as follows:

(i) **Impact.** The impacts of the project will be increased economic contribution to Asia and the Pacific by MFIs and SBBs; greater reach to underserved clients (i.e., women and rural clients); and improved corporate governance at SBBs and MFIs.
(ii) **Outcome.** The outcome will be expanded and improved access to finance for MFIs and SBBs in DMCs.
(iii) **Output.** The project output will be the establishment of the fund and its policies as outlined in this proposal.

17. Specifically, the proposed equity investment will promote development in several ways, including (i) providing equity support for SBBs and MFIs, which will help leverage more funds from the commercial market; (ii) building capacity at investee institutions (via SCE, described below) to better service SMEs and microenterprises in DMCs, thereby contributing to the development of robust financial institutions and promoting good corporate governance at SBBs and MFIs; and (iii) providing ADB with opportunities to learn valuable lessons from the fund's investments in similar projects in Africa.

III. THE FINANCIAL INTERMEDIARY

A. Sponsor and Ownership

18. **Sponsor.** The fund’s original sponsor was ShoreBank Corporation (SBK). Founded in 1973 and headquartered in Chicago, SBK is a regulated bank holding company with four

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[23] ADB. 2000. *Private Sector Development Strategy*. Manila

subsidiaries including ShoreBank (ShoreBank Midwest, their mission-driven Midwestern regional community development bank serving underprivileged markets in Chicago, Detroit, and Cleveland), and ShoreCap Management (SCM, the fund manager). Already operating in underprivileged parts of the United States (US), ShoreBank Midwest experienced serious difficulties during the 2008–2009 financial crisis, and was ultimately closed by the Illinois Department of Financial & Professional Regulation in August 2010. In response to the difficulties faced by its parent, SCM established a new and independent fund management entity. SCM has thus been replaced by Equator Capital Partners (ECP), a newly created independent fund management company 100% owned by its management.

B. Governance Structure

1. Management

19. ECP's dedicated fund management team manages this fund and the remaining divestments of ShoreCap I, the fund manager’s first fund. The fund management team consists of (i) Frank Kennedy (president); (ii) Davis Golding (chief investment officer); (iii) Kenny Nwosu (director of Africa investments); (iv) Teerawut Pangviroonrug (director of Asia investments, based in Thailand); (v) Nathalie Gabala (director of African investments, based in South Africa); (vi) Leslie Davis (director of portfolio management); (vii) Steve Brown (director of finance and administration); and (viii) Lynn Pikholz (director of capacity-building investments). Although primarily based in ECP’s head office in Chicago, the fund manager has deep local knowledge of both Asia and Africa as a result of the ECP management team's extensive network and experience in the region.

2. Corporate Governance

20. The fund has a board of directors (consisting of five members), and the fund manager also has a board of directors (consisting of seven members). The fund will have an advisory board of up to six members, comprising representatives of the fund’s investors. ADB will have a seat on the advisory board. The advisory board will represent the interests of the investors, and advise and provide guidance to the fund manager on matters related to fund operations, governance, valuations of portfolio investments, and conflicts of interest.

3. Risk Management

21. The fund manager will manage risk through its investment process, which involves several layers of approval, and through its investment committee, which is comprised of members of the fund management team with one independent member.

C. Business Overview and Strategy

22. The fund will invest in the equity or quasi-equity of regulated MFIs and SBBs with significant growth and return potential based on a demonstrated business strategy of expanding financial services to underserved markets in Africa and Asia. The fund manager will target mostly regulated MFIs and SBBs for investments by the fund, and will focus on institutions with strong local roots and leadership. In particular, the fund manager will target high-growth, early-stage regulated institutions; underperforming regulated banks capable of transformation; and regulated institutions looking at significant geographic expansion opportunities.

IV. THE PROPOSED ADB ASSISTANCE

A. ADB Assistance and Transaction Structure

23. ADB proposes making an equity investment of up to $10 million in the fund, not to exceed 25% of the fund's total capital commitments, whichever is less, and not resulting in ADB being the single largest investor in the fund. ADB's equity contribution to the fund will be used exclusively for investments in DMCs, and the return on such contribution will be based solely on the performance of the fund's investments in Asia. To achieve this segregation, ADB will have an excuse right to allow its money not to be drawn for non-DMC investments.

B. Justification for ADB Assistance

24. ADB's assistance through equity participation in the fund is justified by the development impact (as described above) that the fund will have in the targeted DMCs, particularly with regard to poverty reduction and economic development. This project will add additional value by (i) demonstrating the viability of a fund that serves SMEs and microenterprises through investments in financial intermediaries in DMCs, and (ii) continuing to support a fund manager that has already been successful in microfinance and SME lending in Asia. ADB's investment will allow the fund to reach its target level of capitalization and effectively carry out its planned operations. In the absence of ADB support, it would be very difficult for the fund manager to achieve the target size for the fund and for the fund to be financially sustainable.

V. POLICY COMPLIANCE

A. Environment and Social Safeguards

25. ADB's investment in the fund is classified as category FI[24] under ADB's Safeguard Policy Statement (2009). The fund will finance micro and small enterprises that are not expected to entail any involuntary resettlement impacts or affect any indigenous peoples. The fund manager has already established a social and environmental management system (SEMS) compliant with IFC's performance standards and has adopted a microfinance exclusion list. As required under the SEMS, due diligence reports prepared by ECP investment officers for the investment committee also include specific reporting on a prospective investee institution's business principles as they relate to environmental, social, labor, health, and safety considerations in operations. If needed, the fund's SEMS will be upgraded to meet ADB's requirements under the Safeguard Policy Statement. ADB will coordinate with the fund manager to ensure that all changes to the SEMS (if required) are made before ADB's first disbursement to the fund.

B. Anticorruption Policy

26. The fund manager was advised of ADB's *Anticorruption Policy* (1998, as amended to date) and policy relating to the Combating of Money Laundering and the Financing of Terrorism (2003). Consistent with its commitment to good governance, accountability, and transparency, ADB will require the fund to institute, maintain, and comply with internal procedures and controls following international best practice standards for the purpose of preventing corruption or money laundering activities or the financing of terrorism, and covenant with ADB to refrain from engaging in such activities. The investment documentation between ADB and the fund will further allow ADB to investigate any violation or potential violation of these undertakings.

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[24] FI stands for financial intermediary.

27. As mentioned in para. 27, the fund is a limited liability company registered in Mauritius—an offshore financial center and common location of incorporation for funds and fund managers. Incorporation in an offshore financial center allows the fund and its investors to avoid double taxation, as a result of the country's own tax regulations and the tax treaties that it has with other countries. Having undertaken its own due diligence of this matter, the project team is satisfied that the fund will not be used for cross-border tax evasion, money laundering, or the financing of terrorism.

C. Investment Limitations

28. The proposed transaction, once approved and signed, will increase ADB's projected nonsovereign exposure by the end of June 2011 to $5.7 billion. Additionally, the proposed transaction will increase nonsovereign exposure to the PRC (to $1.31 billion or 22.8% of total nonsovereign exposure) and to India (to $1.36 billion or 23.6%). Total nonsovereign exposure to private equity funds will also increase to $709.5 million or 12.35% of total nonsovereign exposure. The proposed financing is within ADB's approved medium-term limit, country limit for any country within Asia, and industry and group exposure limits for nonsovereign operations. As for the obligor limit in an equity fund, it complies with the policy limit, although ADB's investment returns are tied only to the portion of the fund to be invested in ADB DMCs.

D. Assurances

29. Following approval of the proposed investment by ADB's Board of Directors, ADB will enter into suitable documentation, in a form and substance satisfactory to ADB.

VI. RECOMMENDATION

30. I am satisfied that the proposed equity investment would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve the equity investment of up to $10,000,000 in ShoreCap II Limited from ADB's ordinary capital resources, on such terms and conditions as are substantially in accordance with those set forth in this report and as may be reported to the Board.

Haruhiko Kuroda
President

17 November 2010

DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
Impact			**Assumptions**
Increased economic contribution to Asia and the Pacific by MFIs and SBBs	By the time of the fund's exit, investee MFIs and SBBs increase net income by 50% and increase taxes paid by 50% over levels at the time of investment	Fund's quarterly and annual reports	Stable or increased economic development in DMCs
Greater reach to underserved clients (women and rural clients)	By the time of the fund's exit, the number of loans made by MFIs and SBBs to women and rural clients increased by 30% compared with levels at the time of investment	Fund's quarterly and annual reports	Continued commitment of MFIs and SBBs to reach underserved populations
Improved corporate governance in MFIs and SBBs	International standards for financial reporting and corporate governance established in fund's MFI and SBB investment companies by 2019	Fund's quarterly and annual reports	Continued commitment of fund investee institutions to adopt and maintain international standards for financial reporting and corporate governance
Outcome			**Assumptions**
Expanded and improved access to finance for MFIs and SBBs in ADB DMCs.	Investors' committed capital is fully drawn down by 2015	Fund's capital account statements to ADB	No adverse macro changes that will have a negative impact on banking or microfinance development
	Fund invests in at least 11 MFIs and SBBs in ADB DMCs by 2015	Fund's quarterly and annual reports	Adequate demand exists from MFIs and SBBs for financing
	By time of fund's exit, investee MFIs and SBBs increase assets by 80% and loan portfolios by 80%	Fund's quarterly and annual reports	The fund manager finds attractive investment opportunities
	Investee institutions are compliant with ADB's Safeguard Policy Statement (2009)	Fund's annual environmental and social compliance report to ADB	The fund manager can influence investees to comply with environmental and social compliance requirements

Design Summary	Performance Targets and/or Indicators	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
Outputs			**Assumptions**
Establishment of the fund and its policies	The fund raises $75 million by the final closing in 2011 An environmental and social management system (ESMS) is established and implemented by 2011	Quarterly reports on investment status and annual financial statements of the fund An ESMS document satisfactory to ADB is approved by the fund and submitted to ADB	Prevailing market conditions are stable and there is continued interest in SBBs and MFIs in targeted DMCs
Activities with Milestones			**Inputs**
a. Operational arrangements Legal documentation (shareholders' agreement, subscription agreement, fund management agreement, etc.) are executed as appropriate by Q4 2010. Incorporation, registration, and other activities needed to establish the fund are complete by Q4 2010. b. Financing arrangements ADB invests $10 million by final closing of the fund in Q1 2011. Fund manager invests $250,000 by first closing of the fund in Q3 2010. Other investors invest up to $65 million by final closing in Q1 2011.			ADB: $10 million, not to exceed 25% of the fund, whichever is less Fund manager: $250,000 Other investors: More than $65 million

DMC = developing member country, ESMS = environmental and social management system, MFI = microfinance institution, Q = quarter, SBB = small business bank.
Source: ADB staff.