

## **IMPLEMENTATION ARRANGEMENTS**

- 1. Accreditation of Partner Financial Institution (PFI)/ Local Currency Lender (LCL).** All PFIs/ LCLs will be approved by ADB's Investment Committee (IC). In addition to international commercial banks active in financing MFIs in Asia, the program will target domestic financial institutions in ADB's DMCs that are engaged in wholesale MFI funding. The program will be rolled-out in the respective DMCs accordingly. Detailed due diligence will be performed on each PFI/LCL before its entry into the program.
- 2.** Accreditation of PFIs/LCL primarily focuses on (i) experience in MFI lending; (ii) internal credit and risk management; (iii) underwriting process; (iv) management information system; and, (v) management team. At a minimum, each PFI/LCL is required to meet the standards listed in Appendix 2 (Partner Financial Institution Criteria for Microfinance Risk Participation and Guarantee Program).
- 3. Approval of Microfinance Institutions (MFIs).** ADB will consider each PFI's recommendations on MFIs that it intends to place under this program. At a minimum, the PFI will confirm to ADB that the MFI meets all of the PFI's credit and underwriting requirements, as well as social and environmental standards. ADB will not conduct detailed independent due diligence and evaluations on these MFIs, but rather an abbreviated desktop review to determine whether to accept the MFI into the program. ADB will primarily rely on the PFI's credit process, its extensive industry experience, and its relationships with the MFIs. Approving of MFIs and respective limits is delegated to the Office of Risk Management (ORM).
- 4. Risk Coverage.** ADB on an unfunded basis, will assume up to 50% of the default risk of loans made by the PFI/LCL to MFI customers in ADB's DMCs. In exceptional cases, a higher percentage may be considered subject to approval of the IC.
- 5.** ADB will assume risks in existing loans outstanding to MFIs, as well as new loans. This will enable the PFI/LCL to increase its lending limit to existing relationships that it has experience with, and allow loans to additional MFIs that meet its lending criteria. Conversely, it will provide ADB with the comfort of dealing with a mature portfolio and over a period of time, give ADB the reassurance of possibly expanding the facility to cover smaller and slightly riskier MFIs. Furthermore, no watchlisted and/or classified accounts will be eligible.
- 6. Monitoring.** ADB will continue to require periodic reports from the PFI/LCL to update progress on loans risk participated/guaranteed under the program. Annual monitoring review on the MFIs will be undertaken. ADB will monitor the value of its exposure on ongoing basis to ensure that it will not go beyond the approved limits.
- 7. Tenor.** Risk participated/ guaranteed loans to MFIs will have a maximum tenor of 3 years.