



Technical Assistance Report

Project Number: 44934-018
Transaction Technical Assistance Cluster (C-TRTA)
December 2017

REG: Microfinance Risk Participation and Guarantee Program - Transaction Support for Expansion Subproject 1: Expansion Support

This document contains information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011. Recipients should therefore not disclose its contents to third parties, except in connection with the performance of their official duties.

Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
MFI	–	Microfinance Institution
MFP	–	Microfinance Risk Participation and Guarantee Program
PFI	–	Partner Financial Institution
PSOD	–	Private Sector Operations Department
TA	–	Technical Assistance

NOTE

In this report, "\$" refers to United States dollars unless otherwise stated

Vice-President	Diwakar Gupta, Private Sector and Cofinancing Operations
Director General	Michael Barrow, Private Sector Operations Department (PSOD)
Director	Christine Engstrom, Private Sector Financial Institutions Division, PSOD
Team leader	Sabine Spohn, Senior Investment Specialist, PSOD
Team members	Genevieve Abel, Principal Transaction Support Specialist, PSOD Nigel Chin, Counsel, Office of the General Counsel (OGC) Melissa Escurel, Associate Investment Officer, PSOD Bart Raemaekers, Principal Guarantee and Syndications Specialist, PSOD Grace Vela, Operations Assistant, PSOD

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

CONTENTS

	Page
I. THE ONGOING PROGRAM	1
II. THE TECHNICAL ASSISTANCE SUBPROJECT	1
A. Overall Progress of the Technical Assistance Cluster	1
B. Subproject Scope	1
C. Subproject Outputs and Activities	1
D. Subproject Cost and Financing	2
E. Subproject Implementation Arrangements	2

I. THE ONGOING PROGRAM

1. The microfinance risk participation and guarantee program (MFP), approved in 2010, fills a market gap by sharing risks with accredited partner financial institutions (PFIs) to facilitate local currency lending to the microfinance sector. Due to the program's success and increased market demand, the ADB Board of Directors removed the program expiration date and included it into ADB's mainstream operations in 2015. Through end November 2017, the program has supported \$598 million of new local currency loans (including cofinancing of \$314 million), reaching 3.45 million borrowers, mostly women. The program operates in Bangladesh, India and Indonesia, with the bulk of exposure in India. One of the program's strongest attribute is its ability to support MFIs through various stages of growth. Some of the Indian program MFIs have grown significantly over time and are now converting to small finance banks and exiting the program. Several of the larger MFIs and the new finance banks are now being funded directly by ADB outside the program through long-term debt and equity.¹ Going forward, ADB plans to expand further in the region and support microfinance institutions in diversifying their funding sources and product offerings in order to reach more of the unbanked population in Asia and the Pacific. This will be supported through the technical assistance (TA), Subproject 1.

II. THE TECHNICAL ASSISTANCE SUBPROJECT

A. Overall Progress of the Technical Assistance Cluster

2. This is the first subproject under the Microfinance Risk Participation and Guarantee Program Transaction Support for Expansion.

B. Subproject Scope

3. The cluster TA has the following overall outcome: sustainable financial inclusion increased. Through a combination of funding instruments, partners will receive more financing for lending to the target population, and PFIs will be more comfortable to lend directly to this market segment. To support MFIs in diversifying their funding sources and product offerings, this subproject will support in guarantee and risk participation product readiness to credit enhance bonds and securitizations issued by MFIs. It will also support identification and evaluation of potential new partner banks in new countries, previously not covered by the program.

C. Subproject Outputs and Activities

4. **Output 1:** Support identification, evaluation and preparation of potential new MFIs to be accredited under the MFP. This will include fact finding missions to new countries, as required, analysis of legal and regulatory environment, review of MFIs according to eligibility criteria, due diligence and financial analysis of potential new partners, preparation of credit approval notes, and annual reviews. This will include one expert to work with MFP. The scoping will include one new MFP country It will, as necessary, include support in annual reviews of existing MFIs and PFIs and preparation of capacity building on weaknesses identified during the evaluation.

¹ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Debt Financing Janalakshmi Financial Services Private Limited in India*. Manila.; ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Proposed Equity Investment CreditAccess Asia*. Manila.; ADB. 2017. *FAST Report: Equity Investment Satin Creditcare Network Limited Supporting Access to Finance for Women in Lagging States Project in India*. Manila.

5. **Output 2:** Support identification, evaluation, structuring and preparation of capital market instruments and other guarantee/risk participation products to be guaranteed under the MFP. This will include 2² international and one national expert to work with MFP and Guarantee and Syndications Unit to prepare in close collaboration with ADB's legal team, risk, treasury and controller departments, financial analysis and due diligence for bond and securitization transactions, including structuring, legal documentation, pricing and preparation of product readiness review memo. It will also include the identification and preparation of new transactions once the product readiness review memo has been signed off. The input will include finalization of at least one new guarantee product and respective preparation of documentation and processes to finalize the product readiness review memo and support to at least one potential new transaction under the respective product. It will include training and awareness raising among a broader audience on the new products.

D. Subproject Cost and Financing

6. The TA subproject is estimated to cost \$500,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6). The funds will cover remuneration, travel³, and per diem for international consultants; workshop and seminar related expenditures⁴; and miscellaneous expenses.

E. Subproject Implementation Arrangements

7. ADB will administer Subproject 1 and its Private Sector Operations Department, Financial Institutions Division, will select, supervise and evaluate consultants.

Table 1: Subproject 1 Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	December 2017 – December 2018		
Executing agency	ADB		
Implementing agencies	PSOD, PSFI		
Consultants	To be selected and engaged by ADB		
	Capital Markets Expert (international)	Individual selection	ADB, Subproject 1
	Guarantee and Risk Participation Expert (international)	Individual selection	ADB, Subproject 1
	Transaction support analyst (national)	Individual selection	ADB, Subproject 1
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		

Source: Asian Development Bank.

8. **Consulting services.** The consultants will be engaged in accordance with the ADB Procurement Policy (2017, as amended from time to time) and the associated project administration instructions and/or TA staff instructions. Where possible, output-based contracts (lump sum) will be used. ADB staff can be used as sector, thematic, or technical experts and resource persons. Consultants will be required to arrange and conduct specific workshops.

² The capital market expert will be involved in output 1.

³ In case of ADB personnel used as resource persons, travel related expenses will be charged to the TA.

⁴ As necessary, this will be workshop in countries, such as India or Bangladesh, to show case capital market transactions and raise awareness among stakeholders, including regulators. 1-2 workshops outside of Manila are expected.

Respective guidelines from ADB's Technical Assistance Disbursement Handbook (2010, as amended from time to time) will be followed.