



Technical Assistance Report

Project Number: 44934-026
Transaction Technical Assistance (TRTA)
September 2020

Supporting Microfinance and Lending Partner Financial Institutions in their COVID-19 and Post- pandemic Response (Regional)

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
COVID-19	–	coronavirus disease 2019
MFI	–	microfinance institution
MFP	–	Microfinance Risk Participation and Guarantee Program
NBFI	–	non-bank financial institution
TA	–	technical assistance
TASF	–	Technical Assistance Special Funds

NOTE{S}

In this report, “\$” refers to United States dollars.

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TRANSACTION TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 44934-026	
Project Name	Supporting Microfinance and Lending Partner Financial Institutions in their COVID-19 and Post-pandemic Response	Department/Division	PSOD/PSFI
Nature of Activity	Capacity Development	Executing Agency	Asian Development Bank
Modality	Regular		
Country	Regional		
2. Sector		Subsector(s)	
✓ Finance	Inclusive finance	ADB Financing (\$ million)	
			0.50
		Total	0.50
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		GHG Reductions (tons per annum)	0
✓ Accelerating progress in gender equality		Climate Change impact on the Project	Low
		ADB Financing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
		Cofinancing	
		Adaptation (\$ million)	0.00
		Mitigation (\$ million)	0.00
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.a		Some gender elements (SGE)	✓
SDG 5.1			
SDG 8.10		Poverty Targeting	
		Geographic Targeting	✓
4. Risk Categorization		Low	
5. Safeguard Categorization		Safeguard Policy Statement does not apply	
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		0.50	
Transaction technical assistance: Technical Assistance Special Fund		0.50	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		0.50	
Currency of ADB Financing: US Dollar			

I. THE ONGOING PROJECT

1. In April 2020, the Asian Development Bank (ADB) approved an increase in the aggregate limit for the Microfinance Risk Participation and Guarantee Program (MFP) by \$260 million to \$600 million.¹ MFP is a credit enhancement initiative designed to address market gaps by sharing risks to facilitate local currency lending to microfinance institutions (MFIs), which on-lend to low-income people who face difficulties in gaining access to finance. Operating on a revolving basis, the MFP has supported \$1.18 billion in new local currency loans since inception in 2010 to end-2019, benefiting over 6 million end-borrowers, mostly women, across ADB's developing member countries. As a result of the COVID-19 outbreak, MFP seeks to support MFIs that are partners of the program by building resilience during the post-pandemic period and help sustain continued financing of the most vulnerable low-income population in ADB's developing member countries (DMCs).²

II. THE TECHNICAL ASSISTANCE

A. Justification

2. Lower-income people find it difficult to borrow from formal lending sources for various reasons including small loan amounts that are challenging and expensive for banks to administer, the lack of proper identification, and the absence of a credit history and collateral. Microfinance has been a critical tool in addressing this market gap and reducing poverty by providing financial services to low-income people, particularly women. However, MFIs and other organizations that cater to this market segment struggle to obtain sufficient commercial funding, particularly in local currency, to meet the vast demand from their client base. In India, larger MFIs and NBFIs are starting to access capital markets, with credit enhancements to improve ratings and lower risks for investors, as they seek to diversify their funding options. But MFIs/NBFIs still need access to standard wholesale commercial financing to on-lend to low-income borrowers. The aim of the MFP is to sustain the flow of wholesale finance by partner financial institutions (PFIs) so that selected MFIs/NBFIs can continue their on-lending operations, service their debt obligations, and meet the financial needs of low-income populations. However, in periods of social and economic duress triggered by systemic shocks like the COVID-19 pandemic, economic activity and movement is drastically reduced, low-income borrowers are unable to engage in productive economic activity and MFIs/NBFIs are unable to collect loan repayments, up to 90% of which are recovered in cash directly from their clients where they live.

3. This results in a further widening of gaps in access to fair and transparent finance for the poor and under-served segments of DMCs. The risk appetite of the PFIs is reduced by the weakened macro-economic conditions and rising non-performing loans reinforcing the banking sector's natural defensive response to curtail lending to MFIs/NBFIs, which are often perceived to be higher risk borrowers. The lead time for normalcy to return and for private capital to flow back to underserved low-income borrowers during times of economic shock is substantial and is expected to be even longer in the post-COVID-19 recovery period. Given the vulnerable situation of the borrowers and the distressed conditions, it is also vital that MFIs/NBFIs adhere to fair lending practices, and safeguard the rights and privileges of these borrowers, in these circumstances.

¹ ADB. 2020. ADB's Comprehensive Response to the COVID-19 Pandemic.

² MFP considers MFIs to be NBFIs-MFIs, NBFIs, non-government organizations, cooperatives and other institutions that lend to the low-income population in ADB DMCs.

4. Amid the large-scale economic disruption following the outbreak, the lower tolerance of risk and the threat of diminishing funding sources tends to impact microfinance institutions significantly. The operational challenges arising from difficult circumstances means that standards can become compromised but they can also provide the opportunity for change and improvement, such as instilling fair lending practices. This technical assistance (TA) therefore proposes timely intervention as economic activity and income-generating opportunities resume in the post-lockdown period. It will help these MFIs/NBFIs: a) build their capacity and resilience; b) secure continued financing by wholesale investors to ensure on-lending to low-income borrowers; c) promote continuity of lending and collection activity for clients, assisting them through periods of economic and personal distress with awareness and sensitivity; and d) prepare for future crisis-related scenarios.

5. To maximize its impact, and in line with PSOD's support of greater financial inclusion as described in Strategy 2030³, the TA is therefore substantially directed towards small and mid-sized MFIs/NBFIs that traditionally serve rural and peri-urban borrowers, as well as a high proportion of women, in more remote areas where there are no or very limited alternative means of finance. MFIs are at most risk from the withdrawal of funding from wholesale lenders and are also likely to have the least expertise to respond in a crisis scenario. They are therefore more likely to fail as a result of the COVID-19 outbreak posing a severe risk to household income generation by those with no alternative access to the regulated financial sector. MFIs whose clients are affected by the impact of the pandemic will be selected in consultation with MFP's PFIs because of their strong relationships as wholesale lenders to these institutions and to underpin MFP's increased facility limit approved by the ADB as part of its comprehensive response to the COVID-19 pandemic. The MFIs/NBFIs selected will be existing approved obligors of the MFP and/or those under proposal and demonstrating strong potential, with a strategic vision that aims to meet the needs of low-income borrowers which includes maintaining best practice in customer protection and responsible lending, aligned with well-established standards like the former SMART Campaign's Client Protection Principles, now incorporated in the Universal Standards for Responsible and Inclusive Lending promoted by SPTF and CERISE.⁴ To meet the needs of qualifying MFIs as they evolve in the dynamic post-pandemic period, the aims of the TA are three-fold and subject to the assessment of training needs and availability of the TA's resources: i) to conduct due diligence and institutional assessments of MFIs to ensure that MFP facilities are maintained and increased and that new MFIs are on-boarded; ii) to improve and strengthen fair lending practices and client protection principles of MFIs; and iii) to provide capacity-building assessment and advisory services for the development of a more robust response of MFIs to future crisis-rated scenarios. Target countries for the selected MFIs include Bangladesh, India, and Myanmar. By engaging certified and reputable technical partners to work directly with the selected MFI/NBFI names, the proposed TA aims to strengthen the institutional and operational capabilities of MFIs to secure continued financing by wholesale investors to ensure on-lending to low-income borrowers. The scope of the TA will include:

- a. Business continuity planning (BCP): Activities to be conducted under this component include: i) provision of advice for board and senior management to prepare for periods of economic and social disruption in alignment with long term strategic aims; ii) portfolio analysis based on the changed economic landscape and prospects for different sub-sectors; iii) asset and liability management advisory including the formulation of restructuring policies; iv) support in the prudent revision of credit policies and approval

³ ADB. 2018. Strategy 2030. Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific.

⁴ The Social Performance Task Force and CERISE are non-profit organizations promoting responsible, ethical and inclusive finance. <https://www.smartcampaign.org/>; <https://sptf.info/>; <https://cerise-spm.org/>.

and risk monitoring procedures that continue to maintain sound lending principles and responsible recovery procedures; and v) provision of online training in the optimum utilization of electronic channels to maximize MFI collection efficiencies and minimize physical contact to mitigate post -pandemic contagion risk.

b. Communication and Change Management: Activities to be conducted under this component include: i) preparing staff to respond with agility, professionalism and sensitivity in differing scenarios; ii) helping staff to communicate with borrowers on a regular and detailed basis that reassures, guides and shows that lenders are working in the long-term interests of clients; iii) devising consistent messaging to the media and investors to raise awareness of MFI activities, show leadership in the community and help secure refinancing opportunities.

c. Institutional assessment of selected MFIs/NBFIs on the areas of risk management, internal control and audit, MIS and management reporting, information technology and usage of alternate arrangements aligned with pandemic-mitigation measures, to assess their institutional preparedness during economic and social disruptions. These findings would be the basis of follow-on training and capacity building programs for the participating MFIs/NBFIs and would also be additional and critical inputs in ADB's on-boarding process under the program.

d. Promoting gender equity by identifying and addressing specific needs emerging from women borrowers, especially in under-served areas, such as non-discrimination in the access to finance, the right to responsible lending practices and the availability of high quality training in financial products and literacy. MFIs will be assisted in adapting their policies and systems to close gender gaps and to incorporate gender analysis in their portfolio monitoring, reporting and forecasting. MFI employees, including directors, senior managers and field staff, will be provided with training, tailored to each institution's needs, to raise awareness, and uphold the principles of, gender equality.

e. The implementation of the Universal Standards for responsible, inclusive finance which includes: i) assessment of MFIs' fair lending practices; and ii) recommendation and implementation of the introduction or revision of lending policies and practices and, where deemed appropriate, staff-training and capacity-building needs, aimed at attaining and maintaining these standards. For clarity, the Universal Standards' framework is summarized in Table 1 below:

Table 1: Universal Standards for Responsible Inclusive Finance

<ul style="list-style-type: none"> Define and Monitor Social Goals The provider has a strategy to achieve and collects and discloses accurate client data specific to its social goals. Ensure Board, Management and Employee Commitment to Social Goals Members of the board of directors hold the provider accountable to its mission and social goals. Senior management oversees implementation of the provider's strategy for achieving its social goals while employee recruitment and evaluation is based on both social and financial performance criteria. Design Products, Services and Delivery Channels that meet Client's Needs and Preferences The provider understands the needs and preferences of different types of clients. Its products, services and delivery channels are designed to benefit clients, in line with the provider's social goals.
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- **Treat Clients Responsibly** Covers issues such as the prevention of over-indebtedness, transparency, fair and respectful treatment of clients, privacy of client data, and mechanisms for complaints resolution.
- **Treat Employees Responsibly**
The provider follows a written Human Resources policy that protects employees and creates a supportive working environment. It communicates to all employees the terms of their employment, provides training for essential job functions and monitors employee satisfaction and turnover.
- **Balance Financial and Social Performance** The provider sets and monitors growth rates that promote both institutional sustainability and social goals. Equity investors, lenders, board and management are aligned on the provider's social goals and implement an appropriate financial structure in its mix of sources, terms, and desired returns. The provider sets prices responsibly and compensates senior managers in a way that is appropriate to a provider with stated social goals.

Source: The Social Performance Task Force

f. Collecting and recording data on: i) the ramifications of the pandemic outbreak on MFI staff, operational capabilities, clients and investors; ii) the altered risk profile for the selected MFIs; iii) the identification of needs and pathways that equip selected MFIs to manage the impact of the outbreak; iv) how the recommendations enabled the MFIs to assist their borrowers in resuming business activity; and v) new learnings arising from the post pandemic period as a result of the TA.

6. This proposal, targeted at the more vulnerable MFIs in the Program, operating mainly in rural areas, will complement the deployment of existing TA.⁵

B. Outputs and Activities

7. The major outputs and activities are summarized in Table 2.

Table 2: Summary of Major Outputs and Activities

Major Outputs	Delivery Dates	Key Activities with Milestones
1. Institutional assessment and due diligence of MFP obligors promotes MFP's liquidity support in the post -COVID-19 recovery period	4Q 2020 - 4Q 2023	2.1 Provide tailored on-site due diligence and training services to selected MFIs of the MFP including assessment and recommendations focused on key operational processes such as risk management, internal control and audit, MIS and management reporting.
2. Emergency response of MFI obligors under MFP in the post-COVID -19 recovery period is enhanced.		2.2 Provide institutional assessment on selected MFIs on key areas such as BCP, communications and change management, gender equity and data analysis.
3. Capacity-building in financial inclusion approach of MFIs.	4Q 2020 - 4Q 2023	3.1 Where needed, support MFIs in the implementation of client protection principles through a comprehensive assessment of and training in the

⁵ ADB. 2016. *Technical Assistance to India for Strengthening Financial Inclusion through Responsible Finance Practices*. Manila; ADB. 2017. *Transaction Support Technical Assistance Cluster Report for REG: Microfinance Risk Participation and Guarantee Program – Transaction Support for Expansion*. Manila; ADB. 2019. *Technical Assistance for Building Community Resilience through Microfinance in Lagging Peri-Urban Settlements*. Manila.

		development of responsible lending practices provided by an accredited trainer. 3.2 Specific gender issues addressed e.g. improvements in tracking and analyzing lending to women borrowers
4. Capacity-building measures and lessons learned from post-COVID-19 recovery period shared with microfinance community.	4Q 2020 - 4Q 2023	3.1. Conduct knowledge-sharing webinars, and/or workshops for microfinance institutions, wholesale commercial lenders and other international microfinance investors across ADB's DMCs. 3.2. Publish awareness material on the purpose, framework and impact of the TA.

ADB=Asian Development Bank; DMC=developing member countries; MFI=microfinance institutions; MFP=microfinance partner; Q=quarter; TA=technical assistance.

Source: Asian Development Bank

C. Cost and Financing

8. The TA is estimated to cost up to \$500,000, which will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF – income transfer). Participating MFIs will contribute to the funding by providing staff time, as appropriate, office space for consultants as required, workshop facilities and other miscellaneous costs for participants from their respective institutions. The cost estimate and financing plan are shown in Appendix 1.

9. The TA will be administered by ADB. The funds will cover remuneration, travel, and per diem for international and national consultants and miscellaneous expenses. Fixed out-of-pocket expenses will be applied wherever possible. Detailed cost estimates and financing arrangements will be presented for each Technical Partner submitted for approval.

D. Implementation Arrangements

10. ADB's Private Sector Operations Department's, Financial Institutions Division will execute and administer the TA. The implementation arrangements are summarized in Table 3.

Table 3: Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	October 2020–December 2023		
Executing agency	Asian Development Bank		
Implementing agencies	PSOD, PSFI		
Consultants	To be selected and engaged by ADB		
	Firm: Quality and Cost-Based Selection	Inclusive Finance (Microfinance and MSME) Expert, Institutional Strengthening Expert (MFIs and MSME: 2 positions) One accredited Client Protection Principles Trainer (total of 18 person months)	\$220,000
	Firm: Quality and Cost-Based Selection	Microfinance/Crisis Management Specialist, Microfinance Specialist (2 positions) (total of 24 person months)	\$250,000

Aspects	Arrangements
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time).

Source: ADB estimates

11. **Consulting services.** ADB will engage the services of two experienced consulting firms (Technical Partners) to provide capacity development and advisory support to build the expertise and resilience of participating MFIs/NBFIs in the post-pandemic period on an output-based performance. The Technical Partners will be engaged to work on-site or through alternate channels, for a period of about 18 and 24 months respectively following the ADB Procurement Policy (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.⁶ Required expertise of the consultants includes working in the microfinance sector, experience of working in development finance in Bangladesh, India and Myanmar and providing advisory services and training to board directors and senior management of MFI of microfinance institutions in business continuity planning, portfolio analysis, change management and communications, and risk monitoring, evaluation and reporting.

III. THE PRESIDENT'S DECISION

12. 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 for Supporting Microfinance and Lending Partner Financial Institutions in their COVID-19 and Post-pandemic Response, and hereby reports this action to the Board.

⁶ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).

COST ESTIMATES AND FINANCING PLAN
(\$'000)

Item	Amount
Asian Development Bank^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	300.0
ii. National consultants	120.0
b. Out-of-pocket expenditures	
i. International and local travel	50.0
2. Miscellaneous Administration and Support Costs (includes media production, publication, editing of awareness material and distribution of knowledge products)	10.0
3. Contingencies	20.0
Total	500.0

Note: The technical assistance (TA) is estimated to cost \$500,000, of which contributions from the Asian Development Bank are presented in the table.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-income transfer).

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=44934-026-TARreport>

1. Design and Monitoring Framework
2. Terms of Reference for Consultants