ASIAN DEVELOPMENT BANK

TAR: PHI 33275

TECHNICAL ASSISTANCE
(Financed from the Japan Special Fund)

TO THE

REPUBLIC OF THE PHILIPPINES

FOR PREPARING THE

MICROFINANCE FOR RURAL DEVELOPMENT PROJECT

December 2001

CURRENCY EQUIVALENTS
(as of 15 December 2001)

Currency Unit	–	Peso (₱)
₱1.00	=	$0.01934
$1.00	=	₱51.712

ABBREVIATIONS

ADB	–	Asian Development Bank
BSP	–	Bangko Sentral ng Pilipinas (Central Bank of the Philippines)
GFI	–	government financial institution
ICT	–	information communication technology
IFAD	–	International Fund for Agricultural Development
LBP	–	Land Bank of the Philippines
MFI	–	microfinance institution
MIS	–	management information system
NCC	–	National Credit Council
NGO	–	nongovernment organization
PCFC	–	People's Credit and Finance Corporation
RMFP	–	Rural Microenterprise Finance Project
TA	–	technical assistance

NOTE

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

I. INTRODUCTION

1. During the Asian Development Bank's (ADB) Country Programming Mission for 2001, the Government of the Philippines requested ADB to provide technical assistance (TA) to prepare a microfinance project for poverty reduction. ADB fielded a Reconnaissance Mission on 24 September–2 October 2001 and a Fact-Finding Mission on 25 October 2001. The Missions held discussions with representatives of the Government, microfinance institutions (MFIs), funding agencies, private agencies, and the rural poor, and reached an understanding with the Government on the objectives, scope, terms of reference, implementation arrangements, and cost estimates for the TA.[1] Appendix 1 presents the preliminary project framework.

II. BACKGROUND AND RATIONALE

2. Rural poverty in the Philippines continues to be one of the major socioeconomic problems besetting the Philippine economy. Results of the 2000 Family Income and Expenditure Survey[2] show that the incidence of poverty increased from 32.1 percent of the population in 1997 to 34.2 percent in 2000, with about 24 million people outside Metro Manila living below the poverty line of ₱13,219 ($255 per capita per year). Problems of unemployment and underemployment in the Philippines are severe. Many of the poor participate in microbusiness operations, but lack access to financial services, in particular credit, which would allow them to increase their incomes and generate employment. The main sources of credit to the poor have traditionally been informal lenders, investment lenders, and pawnshops, which, respectively, charge 10-20 percent, 5-10 percent, and 4-5 percent per month. The poor have not been served by the private banking sector because lending to them in a conventional way entails a high transaction cost and is perceived as high risk with little potential reward.

3. Although formal financial institutions exist in all provinces and most small towns, they are not well-developed in reaching the poor. The largest category of poor people served by the formal financial sector are agrarian reform beneficiaries (ARBs) and other small agricultural producers who access funds wholesaled by Land Bank of the Philippines (LBP) through some 460 rural banks and 1,700 cooperatives. It is estimated that in December 2000, ₱6 billion ($116 million) was lent to about 0.6 million poor, predominantly male. LBP's lending to the rural poor under this program fell by 5 percent between 1999 and 2000, due to high operation costs.

4. Microfinance services based on a market-oriented and commercial approach (and therefore sustainable) stand out as an effective development tool. Apart from being one of the most promising ways to make credit available to the poor, they make savings services available and thus make unproductive cash available for productive use. Because viable lending rates are much lower than those in the informal markets—typically 2-3 percent per month rather than over 10 percent—costs are reduced and opportunities for profitable investment widened, thereby increasing incomes and reducing poverty. Experience also shows that well-executed microfinance services for the poor help build up social capital and bring about improvements in education, health, resource allocation, and their capacity to bear risks.

5. Microfinance services significantly differ from traditional financial services in terms of clientele, lending and collection technology, products, and the associated risks surrounding loan portfolios, among other aspects. Because of the small loan size,[3] frequent collection, and the

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[1] The TA first appeared in ADB *Business Opportunities* on 12 November 2001.
[2] Survey conducted by the National Statistics Office.
[3] In the Philippines, the official definition of microfinance refers to loans below ₱150,000 ($2,900); although most are much smaller, typically ₱6,000–₱ 7,000 ($115–$135).

fact that loans are generally without collateral, microfinance is very information- and labor-intensive. Therefore, to be able to expand to effectively address the needs of a significant proportion of the poor, the microfinance subsector will require substantial capacity building for the MFIs in terms of staff training and systems development, including management information systems (MIS). It also needs to build up equity, mobilize savings, and have access to other forms of medium- to long-term finance.

6. ADB has been playing a lead role among funding agencies in supporting microfinance development for poverty reduction in the Philippines. From 1988 to 1997, the NGO Microcredit I and II projects[4] (totaling $38 million) pioneered support to nongovernment organizations (NGOs) to distribute credit to the poor. Currently, assistance is being provided under the $35 million Rural Microenterprise Finance Project (RMFP),[5] which supports credit and savings services and institutional strengthening, including making available MIS software for operations of MFIs (para. 7). ADB's recent Nonbank Financial Governance Program Loan,[6] which aims to support the regulatory and supervision framework of the Securities Exchange Commission will also indirectly benefit the microfinance subsector. Various other funding agencies are also supporting microfinance, but generally only with TA. The most significant is the United States Agency for International Development, which provides TA to rural banks and credit policy reform. Part of this TA is assisting the National Credit Council (NCC) in the initial development of regulations for microfinance institutions. Aid agency support through direct investment in the private sector has also increased, including the establishment of a microfinance bank.[7] Several aid agencies are also providing assistance that aims to lower the high transaction cost of microfinance operation by developing and providing MIS software.

7. Under the RMFP, the People's Credit and Finance Corporation (PCFC)[8] is wholesaling credit funds to about 160 MFIs, which have already onlent directly to some 209,000 poor[9] subborrowers in 71 of 78 provinces in 12 regions. The outstanding balance of loans supported by this project is now about ₱1.3 billion ($25 million). The project focuses on providing microfinance credit and savings services to women (98 percent of participants) through the Grameen replication approach. Impact studies have indicated that many participants, typically engaged in small trading, handicrafts, or catering, have been able to significantly raise their incomes, resulting in poverty reduction. Under the project, PCFC has maintained an overall repayment rate of over 98 percent, while the participating MFIs have achieved a collection rate of about 95 percent. The success of the RMFP has been instrumental in establishing microfinance as a viable social enterprise in the Philippines and has contributed to a new image of poor rural women as being creditworthy, carrying lower credit risks than men, and capable of saving.

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[4] Loan 940-PHI (SF): *NGO Microcredit I*, for $8 million, approved on 22 December 1988; and Loan 1137-PHI (SF): *NGO Microcredit II*, for $30 million, approved on 28 November 1991.

[5] Loan 1435-PHI (SF): *Rural Microenterprise Finance*, for $20 million, approved on 8 May 1996 with International Fund for Agricultural Development cofinancing of $14.7 million. Attached to the loan is TA 2558-PHI: *Strengthening Rural Microfinance*. The Government of Finland also provided parallel financing for institutional strengthening under RMFP amounting to $779,820.

[6] Loan 1858-PHI: *Nonbank Financial Governance Program*, for $75 million, approved on 15 November 2001.

[7] The first being the Microenterprise Bank of the Philippines in Mindanao, of which the shareholders are Planters Development Bank (40 percent); Internationale Micro Investitionen AG (20 percent); a Dutch foundation for sustainable development (20 percent); Netherlands Development Finance Co. (10 percent); and International Finance Corporation (10 percent).

[8] PCFC was set up as a Government-owned corporation with ordinary share capital of ₱100 million and redeemable preference share capital of ₱900 million. Land Bank of the Philippines (LBP) holds PCFC's shares on a trust basis.

[9] A prequalification for acceptance under the project is that participants can be objectively classified as poor. Therefore, at entry, 100 percent of project credit is directed to the poor

8. Among the lessons learned under the RMFP are the need to assist in (i) expanding the scope of microfinance services beyond the Grameen approach, to include a wider range of financial services (i.e., micro-insurance, individual-based lending, and other forms of group-based lending); (ii) developing the regulatory and supervision mechanisms for MFIs; (iii) identifying the bottlenecks in operationalizing the policy reforms being implemented; (iv) transforming microfinance NGOs into regulated financial institutions; and (v) building up the capacity of rural banks to offer microfinance services to the poor.

9. Under the loan covenants of the RMFP, PCFC should be privatized before project completion. ADB is continuing its dialogue to ensure that the design of privatization will be such that PCFC's objectives and mission remain the same, and that it is strengthened as a result, so that it could play its full part in the expansion of the microfinance subsector.

10. Global experience in positive poverty reduction through microfinance and experience in ADB projects as well as other programs in the Philippines during the past decade have led the Government to adopt commercial microfinance as the cornerstone in its fight against poverty. The political importance given to microfinance was made clear in President Gloria Macapagal Arroyo's 2001 State of the Nation Address, that her administration was aiming to expand microfinance services to an additional 1 million poor by 2004. The Bangko Sentral ng Pilipinas (BSP) has responded by setting a goal of having at least one microfinance bank for each province.

11. The policy environment for commercial microfinance development is largely in place. Operating instructions for Executive Order (EO) 138, which abolishes subsidized directed credit programs, were issued in 1999. All Government-directed credit programs are to be transferred to financial institutions by February 2002, and to be commercially managed following market interest rates. BSP has issued a number of circulars to encourage wider participation of private sector banks in microfinance: (i) waiving collateral requirements on well monitored microfinance loans, (ii) lifting the moratorium on new branches for microfinance units, and (iii) making rediscounting of microfinance loans available to banks at the wholesale market interest rate. However, regulation and supervision of both bank and nonbank MFIs, which are rapidly increasing in number, remain an area of work to be further developed. BSP will need to have relevant staff specifically trained in supervising MFIs, and will need to adopt a range of prudential standards specific to different types of MFIs.

12. MFIs in the Philippines are currently estimated to include about 500 of 900 existing NGOs, about 100 of 790 existing rural banks, and a sizable share of all cooperatives. The total volume of credit from MFIs is not known, but the balance outstanding is in the range ₱2 billion–₱4 billion ($38 million–$77 million). The total number of poor with access to microfinance services is estimated to be about 0.5 million people, or about 8 percent of the poor households.

13. To meet the existing and growing demand for microfinance services, the ensuing loan project is proposed to build on the successful implementation experiences of the RMFP, and with a focus on deepening outreach to the poor. The proposed project will (i) expand microfinance services to new areas where no services to the poor are available,[10] (ii) strengthen MFIs to deepen their outreach to the poor, and (iii) provide liquidity in appropriate terms for conduits.

[10] New areas include those that are unserved and underserved in the existing 67 provinces covered by the RMFP as well as in new provinces.

14. Within the context of ADB's country operational strategy (COS) for the Philippines, the strategic objectives are to (i) reduce poverty, (ii) promote equity growth, (iii) improve social services delivery, (iv) protect the environment, and (v) promote good governance. The COS is closely aligned with the Government's development objectives elaborated in the Medium-Term Philippine Development Plan, which states microfinance as one of its main strategies for poverty reduction. This TA and the ensuing microfinance project are consistent with the strategic objectives of the Government and ADB. They are also consistent with the strategy of supporting microfinance to extend access to financial services to the informal sector, as stated in the poverty partnership agreement between ADB and the Government.

III. THE TECHNICAL ASSISTANCE

A. Objectives

15. The main objectives are to assist the Government in undertaking a quantitatively oriented review of the microfinance subsector, and to prepare a microfinance project for rural development aimed at poverty reduction. The project will build on the success of the ongoing RMFP (para. 7) and will address the emerging challenges in the sector.

B. Scope

16. The TA will cover two broad areas: overall subsector review and project preparation. The subsector review will include assessment of (i) the overall rural financial sector, including the status of policy reforms and further development of the regulatory framework and supervision mechanisms for microfinance; (ii) volume of demand for microfinance in rural areas, including identifying key constraints and specifying measures for further deepening microfinance services to the poor; (iii) levels of institutional capacity required to meet the demand, including assessing the effectiveness of various capacity-building interventions being implemented by aid agencies and by MFIs; (v) various GFIs[11] to identify financial apex institution(s) for channeling funds to MFIs in the light of the privatization of PCFC; and (v) innovative approaches and lessons learned from international and domestic best practices of onlending to the poor, particularly among MFIs in the RMFP, with the aim of incorporating them in the project design.

17. A microfinance project, suitable for ADB funding, will be prepared to deepen microfinance services to the poor. The work envisaged will be as follows: (i) analyze the proposed financial apex institution(s) and make detailed arrangements for funds flow and other support under the project, initiating implementation of capacity building, as appropriate; (ii) assist in preparing detailed operations manuals for both the apex institution(s) and MFIs; (iii) design institutional strengthening and capacity-building project components for the conduits; (iv) design the credit line elements of the project covering onlending to the enterprising poor; and (v) review readiness for access and use of Internet in selected project areas and identify opportunities for using information communication technology (ICT) in capacity building for the rural poor, with the aim of preparing a linked project utilizing the Japan Fund for Information Communication Technology (JFICT).

18. The TA will engage all stakeholders, including key policymakers, funding agencies, personnel of financial institutions, and representatives of the poor in a variety of participatory workshops, focus group interviews, surveys and seminars. It will provide a forum for funding

[11] Eligible GFIs under consideration include LBP, the Development Bank of Philippines (DBP), and the Small Business Guarantee Fund Corporation (SBGFC).

agencies to meet and discuss microfinance issues and thus promote better cooperation and enhance support for developing of microfinance for poverty reduction.

C. Cost Estimates and Financing Plan

19. The total cost of the TA is estimated at $731,000 equivalent, of which $426,000 is the foreign-exchange cost and $305,000 equivalent is the local currency cost. The Government has requested ADB to finance $560,000 equivalent, covering the entire foreign exchange cost and $134,000 equivalent of the local currency cost. The TA will be financed by ADB on a grant basis from the Japan Special Fund funded by the Government of Japan. The Government will finance the remaining local currency cost, through provisions from the Department of Finance, MFIs, and GFIs. Details of the cost and financing plan are in Appendix 2. The Government has been advised that approval of the TA does not commit ADB to financing an ensuing project.

D. Implementation Arrangements

20. The Department of Finance, through NCC, will be the Executing Agency for the TA, with NCC having overall responsibility for supervising its implementation. The Government will establish a TA coordination committee which will include representatives from BSP, National Economic Development Authority (NEDA), GFIs, the Rural Bankers Association of the Philippines (RBAP), the Cooperatives Development Authority (CDA), and the Microfinance Council. The committee will be chaired by the NCC and will meet monthly to review TA progress. NCC will appoint a senior officer as TA director to work with the team of consultants and to coordinate TA activities with the concerned agencies; GFIs, in particular PCFC; and MFIs. The Government will provide counterpart staff and support staff for the TA and will coordinate the provision of logistical support, including vehicles and gasoline.

21. The TA will be implemented over five months, commencing in April 2002. The TA is expected to be completed by September 2002. A consulting firm will be selected in accordance with ADB's *Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for engaging domestic consultants. A total of 35 person-months of consulting services will be required: 13 international and 22 domestic. The international consultants (with person-months in parentheses) will include a team leader-rural microfinance specialist (5.0), financial economist-macro (2.0), financial and project analyst-accountant (4.0), and microenterprise specialist (2.0). The domestic consultants will include a financial economist-macro (2.0), institutional-training specialist (3.0), rural sociologist-poverty specialist (4.0), microfinance specialist for MFI operations (4.0), ICT specialist (4.0), and MIS development subteam (5.0). The consultants will procure equipment in accordance with procedures acceptable to ADB. Appendix 3 gives the outline terms of reference for the consultants. The consultant will submit (i) an inception report at the end of the second week of commencing the services; (ii) an interim report, containing the subsector review report and progress reports of the beneficiary needs analysis, the MIS, and the ICT component, at the end of the second month; (iii) a draft final report at the end of the fourth month; and (iv) a final report within three weeks after the final tripartite meeting.

IV. THE PRESIDENT'S DECISION

22. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance, on a grant basis, to the Government of the Republic of the Philippines in an amount not exceeding the equivalent of $560,000 for the purpose of preparing the Microfinance for Rural Development Project, and hereby reports such action to the Board.

PRELIMINARY PROJECT FRAMEWORK

Design Summary	Performance Targets	Monitoring Mechanism	Assumptions and Risks
Goal Development of sustainable microfinance services for the rural poor	Improved livelihood of the rural poor Increased access of rural poor to microfinance services	Baseline survey and project benefit and monitoring system NSO MIS of MFIs Project completion report	Macroeconomic situation remains conducive to the development of rural areas. Peace and security prevail in the country.
Purpose Expand outreach and deepen microfinance services in rural areas	Removal of barriers to operationalizing market-based policies Increased number of microfinance finance institutions nationwide Diversified financial services Financial indicators of MFIs Increased volume of wholesaling of microfinance operated efficiently	BSP reports on the financial sector NCC reports MIS of MFIs Project benefit and monitoring system Financial report of MFIs Impact assessment reports Financial statements of wholesalers	Microfinance development remains one of the main strategies of the Government. Effective skills training programs for the poor provided by Government agencies and nongovernment organizations are coordinated.

BSP = Bangko Sentral ng Pilipinas, MFI = microfinance institution, MIS = management information system, NCC = National Credit Council, NSO = National Statistics Office.

Reference in text: page 1, para. 1

COST ESTIMATES AND FINANCING PLAN
($'000)

Item	Foreign Exchange	Local Currency	Total Cost
A. Asian Development Bank Financing[a]			
1. Consultants			
a. Remuneration and Per Diem			
i. International Consultants	315	0	315
ii. Domestic Consultants	0	100	100
b. International and Local Travel	30	0	30
2. Baseline Survey/Beneficiary Needs Analysis[b]	0	17	17
3. Communication and Report Production	10	0	10
4. Equipment[c]	15	0	15
5. Contingencies	56	17[d]	73
Subtotal (A)	**426**	**134**	**560**
B. Government/GFI/MFI Financing			
1. Counterpart Staff, Salaries Per Diem and Travel	0	52	52
2. Vehicles, Gasoline and Drivers for Project Staff Use	0	52	52
3. Project Office Staff and Operating Costs	0	34	34
4. Seminars and Workshops	0	12	12
5. Contingencies	0	21	21
Subtotal (B)	**0**	**171**	**171**[e]
Total	**426**	**305**	**731**

ADB = Asian Development Bank, GFI = government financial institution, ICT = information communication technology, MFI = microfinance institution.

[a] From the Japan Special Fund, funded by the Government of Japan.

[b] ADB financing will include only remuneration and per diem of domestic consultants for the survey and beneficiary needs analysis. Associated local costs, i.e., costs of seminar, workshop, including transportation costs are included under Government/GFI/MFI financing.

[c] Equipment will include about 10 computers for pilot testing the ICT initiatives at key sites.

[d] Contingency for remuneration and per diem of domestic consultants.

[e] Based on ADB. 1999. Staff Instruction: Cost Sharing in Technical Assistance Operations; a Government from a Group C country can contribute less than 30 percent if the ADB contribution covers only foreign exchange costs and costs of domestic consultants.

Source: ADB estimates.

Reference in text: page 5, para. 19

OUTLINE TERMS OF REFERENCE FOR CONSULTANTS

A. Overall Responsibilities

1. The consultants' work will fall into two broad areas.

(i) The first area involves an overall review of the microfinance subsector and beneficiary needs analysis. This should be quantitative in focus, identify the size and scope of the subsector at present, and make projections for the future. Assessments will be made of the volume of demand for microfinance, levels of institutional capability to meet that demand, the likely sources of resources, the impact of microfinance on economic development and on poverty in particular. This area includes reviewing the supervisory and regulatory framework and identifying policy implementation issues.

(ii) The second area will be project oriented. It will prepare a microfinance project, with a strong poverty focus, suitable for Asian Development Bank (ADB) funding. The proposed project will include components that will (i) support policy, supervisory, and regulatory aspects of microfinance; (ii) provide institutional strengthening and capacity building for the conduits and sub-borrowers; and (iii) provide a credit line to microfinance providers for both onlending and institutional purposes. As part of the preparation activity, the consultants will continue the development of the management information system, in readiness for a wider range of subloan types and modalities to be supported in the ensuing loan project. They will also evaluate the impacts of microfinance on the participants in the Rural Microenterprise Finance Project (RMFP), so as to better assess the likely poverty and economic impact under the proposed project. An information communication technology component will be pilot tested in a sample of microfinance institutions (MFIs), with the aim of preparing a linked project utilizing the Japan Fund for Information Communication Technology (JFICT).

B. Consultant Requirements

2. The consultant team will be in the field for five months, April-September 2002. The team will work closely with the TA coordination committee, Government officials, MFIs, and other stakeholders. Consultants carrying out the subsector review will be located at the National Credit Council while consultants working on project orientation will be located at the People's Credit and Finance Corporation (PCFC). A total of 35 person-months of consulting services will be required: 13 international and 22 domestic. The international consultants (with person-months in parentheses) will include a team leader-rural microfinance specialist (5.0), financial economist-macro (2.0), financial and project analyst-accountant (4.0), and microenterprise specialist (2.0). Domestic consultants will include a financial economist-macro (2.0), institutional-training specialist (3.0), rural sociologist-poverty specialist (4.0), microfinance specialist for MFI operations (4.0), ICT specialist (4.0), and MIS development subteam (5.0).

Reference in text: page 5, para. 21

C. Activities

1. Subsector Review

3. The subsector review will be undertaken by a core team comprising the team leader and the two financial economists during the first part of the contract. Specific points to be covered follow:

(i) review the microfinance subsector, and assess the status of policy reforms being implemented; if needed, make recommendations on further development of the regulatory and supervision framework mechanisms for microfinance;

(ii) assess the financial viability and rate of expansion of various lending modalities currently adopted by MFIs, with the aim of incorporating the successful modalities in the ensuing project;

(iii) assess in detail the demand for microfinance in rural areas; disaggregate purpose of credit, modality of lending, and type of borrowers; and identify key constraints to further outreach, particularly to deepening microfinance services to the poor;

(iv) make an initial review of potential apex institutions, which will include but will not be limited to the Land Bank of the Philippines and the Development Bank of the Philippines, to assess their potential as apex institution(s) for the ensuing loan project, in the light of privatization of PCFC;

(v) review the potential of the microfinance sector for generating savings, and assess the likely magnitude of other resources likely to be available to it, particularly in relation to the demand; and

(vi) based on the foregoing, prepare projections, disaggregated by type of MFI, of (a) microfinance lending volume under different modalities, and sources of funds; and (b) sectoral profit and loss accounts and balance sheets as a means of identifying the likely constraints to growth and potential liquidity gaps. This will be important in reconfirming the need for external long-term credit support.

4. A thorough review of the existing literature will be supported by meetings and discussions with key players in the sector and analysis of available records, particularly those of PCFC. Initial demand estimates will need to be approached from an overview of the population likely to be served and their credit needs, and also from the growth projections of a sample of key MFIs, representative of the different types of MFI, i.e., rural banks with an MFI window, cooperative banks, cooperatives and microfinance nongovernment organizations (NGOs). During the course of the sector review, the TA team will need to agree with ADB and the Government on the final choice of the apex institution for the project.

2. Beneficiary Needs Analysis

5. In consultation with stakeholders, the consultants will carry out a variety of participatory activities including surveys, workshops, seminars, and focus group discussions to collect information on the specific needs of the rural poor in relation to the provision of financial services. Key stakeholders will include policy makers, personnel of MFIs, current and potential

subborrowers of rural finance and other stakeholders. Under the supervision of team leader, the survey will be coordinated, implemented, and analyzed by the rural sociologist/poverty specialist with the participation of the microenterprise specialist. The TA will serve as a vehicle for the exchange of ideas about the scope of rural financial services.

3. MIS and ICT Component

6. MIS development and ICT introduction will operate as stand-alone functions initially, although their outputs will be taken into account the project design. The MIS team will continue the development of the existing MIS system funded under the RMFP to accommodate the expanded modalities of loan to subborrowers in the ensuing loan project. The team leader and MIS specialist will make recommendations on appropriate financial arrangements for installing the MIS and training on the system for MFIs under the ensuing loan project.

7. The ICT specialist will review the experience of ICT initiatives undertaken in the Philippines and elsewhere; review readiness for access and use of Internet of at least ten selected areas under the project; design options for making computers available to subborrower groups; and pilot-test the options under the TA. Based on the pilot program, the ICT specialist, under the supervision of the team leader, will prepare a Japan Fund for Information Communication Technology (JFICT) project to be linked to the ensuing loan project to enhance its poverty reduction impact. The project will be prepared following ADB's *Guidelines for Processing of Japan Fund for Information and Communication Technology*.

4. Project Preparation

8. Using the findings of the subsector review, the beneficiary analysis, and outputs of the MIS and ICT component, a project suitable for ADB financing will be prepared starting in week 6. The team leader will coordinate the responsibilities of the team members in preparing the project, and will prepare detailed task allocation plans for each consultant based on their specific expertise.

9. The consultants will

(i) use a participatory process involving all stakeholders to derive the rationale, development goal, objectives, and components. The project design will be presented in the form of a project framework to be updated throughout the TA period;

(ii) analyze the proposed financial apex institution(s) and make detailed arrangements for funds flow, training, and other support under the project, initiating implementation of capacity building, as appropriate; make recommendations for appropriate financial covenants under the proposed loan project;

(iii) undertake a comprehensive assessment of lessons learned from past ADB projects and review innovative approaches and lessons learned from international and domestic best practices the aim of incorporating them in the project design;

(iv) evaluate the use of credit under the RMFP as well as other ongoing microfinance programs, design options for different microcredit packages, and develop

(v) establish linkages between the project and NGOs/Government agencies supporting livelihood development for the poor;

(vi) work closely with the apex institution and MFIs in preparing detailed operations manuals for the expanded types of lending to be introduced under the project;

(vii) identify training needs, formulate an institutional strengthening program, prepare training manuals, both for trainers and staff of participating agencies;

(viii) evaluate the effectiveness of the use of institutional loans under the RMFP and make recommendations for necessary modifications for the ensuing loan project;

(ix) identify possible aid agency collaboration in capacity-building programs, with the aim of creating linkages in the ensuing loan project;

(x) identify complementary rural development programs funded by the Government and other funding agencies and establish linkages to the ensuing loan project;

(xi) prepare the initial social assessment and poverty analysis of expected beneficiaries based on ADB's *Handbook for Poverty and Social Analysis* and design mechanisms to ensure that, at entry, more than 70 percent of the subborrowers for the ensuing project will be from households living below the poverty line;

(xii) work with MFIs to formulate detailed and concrete mechanisms for monitoring the impacts of the project on the subborrowers;

(xiii) prepare detailed cost estimates (using COSTAB software) and financing plan for the project; include foreign exchange and local costs (direct and indirect costs), duties, tax, and contingencies; give details on the contributions of ADB, Government, MFIs, and beneficiaries;

(xiv) prepare a procurement plan for goods and services under the project;

(xv) design loan covenants for different stages of loan processing and project implementation (e.g., covenants for loan signing, loan effectiveness, and others during project implementation);

(xvi) prepare project financial and economic analyses of possible subprojects, the components, and the project as a whole, in accordance with ADB's *Guidelines for the Economic Analysis of Project*; and

(xvii) Based on the final project framework, prepare the project performance monitoring system to be used during implementation.

D. Reports

10. Within two weeks after the work starts, the consultant team will submit a brief inception report for discussion at a tripartite inception meeting with NCC and ADB. About two months after the work starts, the team will submit to ADB the interim report which will contain the subsector review report, and the progress reports on the beneficiary needs analysis, the MIS, and the ICT component. The subsector review report will cover the overall review with projections of potential microfinance demand, resources available, and potential outreach to the poor. Included in the report will be the project framework, which will be an output from a participatory workshop in project design. A one-day workshop will be held to discuss the interim report. A draft final report will be submitted four months after the start of the TA. The draft final report will be discussed at a final tripartite meeting, where the team leader will present the consultant team. A final report containing the necessary information and presented in the fashion consistent with the guidelines for ADB's Report and Recommendations of the President will be submitted to ADB no later than three weeks after the final tripartite meeting. The consultants will submit to ADB and/or Government all reports, data and materials in both hard copy and digital forms.