



Technical Assistance Report

Project Number: 50374-001
Knowledge and Support Technical Assistance (KSTA)
August 2017

Strengthening Financial Sector Operations in Asia and the Pacific (Cofinanced by the Financial Sector Development Partnership Special Fund)

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Asian Development Bank

ABBREVIATIONS

ADB	–	Asian Development Bank
DMC	–	developing member country
FSDPSF	–	Financial Sector Development Partnership Special Fund
FSG	–	Finance Sector Group
FSOP	–	Financial Sector Operational Plan
TA	–	technical assistance

NOTE

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

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KNOWLEDGE AND SUPPORT TECHNICAL ASSISTANCE AT A GLANCE

1. Basic Data		Project Number: 50374-001	
Project Name	Strengthening Financial Sector Operations in Asia and the Pacific	Department /Division	SDCC/SDSC-FIN
Nature of Activity	Capacity Development, Research and Development	Executing Agency	Asian Development Bank
Modality	Regional		
Country	REG		
2. Sector		ADB Financing (\$ million)	
✓ Finance	Finance sector development		0.63
	Inclusive finance		0.63
		Total	1.26
3. Strategic Agenda		Climate Change Information	
Inclusive economic growth (IEG)	Pillar 2: Access to economic opportunities, including jobs, made more inclusive	Climate Change impact on the Project	Low
4. Drivers of Change		Gender Equity and Mainstreaming	
Knowledge solutions (KNS)	Application and use of new knowledge solutions in key operational areas Knowledge sharing activities Pilot-testing innovation and learning	Some gender elements (SGE)	✓
5. Poverty and SDG Targeting		Location Impact	
Geographic Targeting	No	Regional	High
Household Targeting	No		
SDG Targeting	Yes		
SDG Goals	SDG1, SDG5, SDG8, SDG9		
6. Risk Categorization		Complex	
7. Safeguard Categorization Safeguard Policy Statement does not apply			
8. Financing			
Modality and Sources		Amount (\$ million)	
ADB		1.25	
Knowledge and Support technical assistance: Financial Sector Development Partnership Special Fund		0.75	
Knowledge and Support technical assistance: Technical Assistance Special Fund		0.50	
Cofinancing		0.00	
None		0.00	
Counterpart		0.00	
None		0.00	
Total		1.25	

I. INTRODUCTION

1. The proposed knowledge and support technical assistance (TA) will assist the operations departments of the Asian Development Bank (ADB) in expanding investment opportunities for developing member countries (DMCs) in finance sector development, inclusive finance, and infrastructure finance by demonstrating new solutions with financial innovation, including in emerging finance areas (such as digital, green, disaster risk, Islamic, municipal, and agriculture finance) that can be pilot tested, scaled up, and replicated. It will support implementation of the action plan and recommendations approved in the midterm review of the Financial Sector Operational Plan (FSOP) and Finance Sector Group (FSG) work plan.¹ It will enable knowledge sharing in emerging finance areas with cross-sector impact for sustainable finance sector development in DMCs, and enable them to strengthen finance sector resilience. The TA will support current and future DMC initiatives related to finance sector development, inclusive finance, and infrastructure finance. The selection of participating DMCs in the TA will be done in consultation with ADB operations departments and confirmed following government clearance and TA approval.

2. Strategy 2020, ADB's long-term strategic framework, addresses the importance of finance sector development as a core specialization.² The 2014 Midterm Review of Strategy 2020 reconfirmed the focus areas of ADB's strategic support, including finance.³ The FSOP articulated the finance agendas of Strategy 2020. Its midterm review, completed in 2016, examined the implementation of its action plan, related assistance, and its adequacy for the challenges ahead. The proposed TA is included in the management-approved FSG work plan.⁴ While the TA is not included in ADB's regional cooperation operations business plans, it has been prepared in consultation with operations departments.

II. ISSUES

3. Developing Asia faces a challenging global environment. Since the global financial crisis of 2008–2009, global economic expansion has consistently fallen below expectations.⁵ Growth has slowed because of the continued weak recovery in major industrial economies and softer growth prospects for the People's Republic of China. Volatility in global financial markets, which stems from weaknesses in emerging markets and monetary tightening in the United States, is deepening the uncertainty stirred by the global slowdown. Uncertainties abound in the global economic environment, and risks to developing Asia's growth are mostly increasing.

4. Despite achievements so far, many of Asia's developing countries face challenging and often volatile macroeconomic environments for finance sector development, which typically lags developed economies. Most countries in the region also face declining potential economic growth, aging populations, rising risks from climate change and disasters resulting from natural hazards, and a growing need to maintain financial stability in a more volatile world. Differences in per capita income, growth rates, and populations generate widely different levels of finance

¹ ADB. 2017. *Review of 2011 Financial Sector Operational Plan*. Manila.

² ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

³ ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

⁴ The TA first appeared in the business opportunities section of ADB's website on 4 July 2017.

⁵ In the comparison between 2005 and 2015, 26 out of 31 countries from Central, West, East, South, and Southeast Asia largely decelerated the pace of economic growth (ADB.2016. *Key Indicators for Asia and the Pacific 2016*. Manila. p.141).

sector development that must be paid attention to when customizing solutions in the finance sector—and hence the potential to replicate solutions from other country contexts.

5. Finance is a critical component driving national economies, and governments need robust financial systems to ensure a timely and adequate response to uncertainties and changes in the financial architecture. ADB's DMC governments need to enhance their capacity to strengthen finance sector resilience against unexpected events, including financial crises, to ensure sustainable economic growth and social welfare enhancement at the national level.

6. Finance has a cross-cutting impact on all sectors, industries, and economic activities. It also affects global development agendas, which can directly or indirectly contribute to macroeconomic and social goals, including economic growth, poverty reduction, and inequality mitigation; and solve development issues such as health, education, gender, infrastructure, and climate change, as stated in the Sustainable Development Goals.⁶ Given its multidimensional impact, the finance sector should equip a sophisticated system with innovative solutions that make the best use of digital technology, which is an urgent need for DMCs. The use of digital technology will help develop financial products and services with low-cost and fast transactions to promote finance sector development, inclusive finance, and infrastructure finance.

7. ADB has attached importance to finance sector development in Strategy 2020, and set up the FSOP in 2011 to articulate its implementation.⁷ In 2016, ADB conducted a midterm review of the FSOP to assess finance sector operational performance, extract key constraints and challenges, and recommend scaling up quality finance sector operations. Key findings of the review include retaining focus on three key themes: finance sector development, inclusive finance, and infrastructure finance. It also identified the need to develop capacities and project portfolio development in emerging finance areas that have a cross-cutting sector impact.

8. Finance sector development, inclusive finance, and infrastructure finance are key policy priorities in most DMCs. Empirical evidence suggests strong links among sound finance sector development, real sector economic growth, employment, and poverty alleviation.⁸ DMCs such as Indonesia, Mongolia, Myanmar, Pakistan, and the Philippines have established national financial inclusion strategies to enhance access to finance for the unbanked or underserved population, including low-income households; and micro, small, and medium-sized enterprises.⁹ Asia shows strong demand for infrastructure development and finance, estimated at \$26 trillion from 2016 to 2030, or \$1.7 trillion per year, if the region is to maintain its growth momentum, eradicate poverty, and respond to climate change (climate-adjusted estimate).¹⁰

9. Developing emerging finance areas with cross-sector impact will provide new solutions for promoting the three key themes. Given the advent of financial technology, financial services through digital channels—such as mobile banking and internet banking—and agent banking can provide cost-effective ways to scale-up access to finance for the traditionally unbanked or underserved segments, help them move out of poverty, and ensure financial security efficiently.

⁶ United Nations. Sustainable Development Goals. <http://www.un.org/sustainabledevelopment/sustainable-development-goals>.

⁷ ADB. 2011. *Financial Sector Operational Plan*. Manila.

⁸ J. Zhuang et al. 2009. Financial Sector Development, Economic Growth, and Poverty Reduction: A Literature Review. *ADB Economics Working Paper Series*. No.173. Manila: ADB.

⁹ ADB. 2017. *Review of 2011 Financial Sector Operational Plan*. Manila.

¹⁰ ADB. 2017. *Meeting Asia's Infrastructure Needs*. Manila.

A report published in 2016 noted that digital technology promoting financial inclusion can increase gross domestic product by as much as 6% for Southeast Asian economies.¹¹

10. This TA will build on TA projects such as the TA on Unlocking Innovation for Development¹² and Establishing the Future Cities Program in the Asia and Pacific Region.¹³ It supports core themes addressed in the midterm review of the FSOP and the FSG work plan—finance sector development, inclusive finance, and infrastructure finance. Under these TA projects, ADB has explored pilot projects that promote financial inclusion through digital financial services. These include replicable and scalable solutions—such as cloud technology for core banking in the Philippines,¹⁴ a cloud-based digital platform for nonbank financial institutions in Mongolia, and digitization of field-based processes for loan processing in Georgia¹⁵—that are linked to ongoing or pipeline projects in operations departments.

III. THE TECHNICAL ASSISTANCE

A. Impact and Outcome

11. The TA will be aligned with the following impact: enabling environment for investment opportunities in domestic financial markets of DMCs improved (footnote 9). The TA will have the following outcome: capacity of DMCs to promote finance sector development enhanced at the national level.¹⁶

B. Outputs, Methods, and Activities

12. The TA has two outputs: (i) pilot projects for investment opportunities in emerging finance areas identified, and (ii) cross-sector knowledge on financial solutions delivered. Through pilot testing and knowledge sharing, the TA will help DMCs (i) develop a holistic policy framework that responds to the needs of emerging finance areas, (ii) fill the supply–demand gap in infrastructure development and finance, and (iii) facilitate collaboration between finance and real sectors in business development.

13. **Output 1: Pilot projects for investment opportunities in emerging finance areas identified.** In close collaboration with operations departments and sector and thematic groups, the TA will (i) develop at least three feasibility studies for pilot projects in emerging business areas in emerging areas identified in the review of the FSOP; (ii) identify investment opportunities for pilot projects and programs supporting finance sector development in at least one DMC using digital technology and innovative solutions. It will support the implementation of the ongoing pilot project in the Philippines using cloud technology for core banking.

14. **Output 2: Cross-sector knowledge on financial solutions delivered.** In close collaboration with operational departments and Economic and Regional Cooperation Department, the TA will deliver knowledge solutions for DMCs to develop resilient finance

¹¹ McKinsey & Company. 2016. *Digital Finance for all: Powering Inclusive Growth in Emerging Economies*.

¹² ADB. 2015. *Technical Assistance for Unlocking Innovation for Development*. Manila.

¹³ ADB. 2015. *Technical Assistance for Establishing the Future Cities Program in the Asia and Pacific Region*. Manila.

¹⁴ ADB. 2016. *Technical Assistance to the Republic of the Philippines for Financial Inclusion Framework Strengthening*. Manila.

¹⁵ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Loans and Technical Assistance to Credo Microfinance Organization, FINCA Bank Georgia, and TBC Bank for Financial Inclusion for Micro and Small Business Growth in Georgia*. Manila.

¹⁶ The design and monitoring framework is in Appendix 1.

sectors, addressing emerging finance areas with cross-sector impact. The TA will (i) organize (a) at least two flagship knowledge-sharing events—the Second Asia Finance Forum: Fintech and Sustainable Development, and the Third Global Infrastructure Forum; and (b) two thematic workshops on emerging finance areas; and (ii) develop at least three knowledge products (digital publications) on such emerging areas by the end of 2020.

15. The TA will make policy recommendations to DMCs on three themes addressed in the midterm review of the FSOP through pilot projects using digital financial services and innovative solutions, and knowledge-sharing events in emerging finance areas that have a cross-sector impact. It will contribute to building ADB's finance sector project pipeline.

C. Cost and Financing

16. The TA is estimated to cost \$1,250,000, of which \$500,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-other sources) and \$750,000 will be financed on a grant basis by the Financial Sector Development Partnership Special Fund (FSDPSF).¹⁷ The key expenditure items are listed in Appendix 2.

17. **Eligible and non-eligible expenditures.** Eligible FSDPSF expenditures include consulting services, capacity building, advisory services, new financing instrument pilot tests, small equipment and systems procurement, and support for regional financial cooperation among DMCs. Vehicle purchases and salaries for civil servants are non-eligible expenditures.

D. Implementation Arrangements

18. ADB will administer the TA and will be the executing agency. The Sector Advisory Service Cluster of ADB's Sustainable Development and Climate Change Department will implement the TA and will carry out TA administration and supervision, implementation oversight, accountability for the outputs, and communication with consultants and stakeholders in close coordination with the FSG and operations departments.

Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	August 2017–December 2020		
Executing agency	Asian Development Bank (ADB)		
Implementing agency	Finance Sector Group, Sector Advisory Service Cluster, Sustainable Development and Climate Change Department, ADB		
Consultants	To be selected and engaged by ADB		
	Individual international consultants	15 person-months	\$275,000
	Individual national consultants	48 person-months	\$120,000
	Consulting firm via quality-based selection ^a	6 person-months	\$100,000
Procurement ^b	To be procured by ADB		
	Shopping	6 contracts	\$100,000
Disbursement	The technical assistance (TA) resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time). Disbursement of the TA fund sources will be via cost sharing.		

^a Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

^b Procurement Plan (accessible from the list of linked documents in Appendix 3).

Source: Asian Development Bank.

¹⁷ Established by ADB. Financing partner: the Government of Luxembourg.

19. **Consulting services.** The TA will require 6 person-months of services from an international consulting firm; and 15 person-months' international and 48 person-months' national individual consultant services comprising (i) 9 person-months total for three finance experts, (ii) 3 person-months for a visual communication expert, (iii) 3 person-months for a manuscript editor, (iv) 24 person-months for a research assistant, and (v) 24 person-months for a project coordinator. It will also require 2.3 person-months total for five resource persons. ADB will engage the consultants following its Guidelines on the Use of Consultants (2013, as amended from time to time).¹⁸

20. **Pilot testing of project approach.** The scope of the pilot investment project under this TA covers one of the following themes: finance sector development, inclusive finance, and infrastructure finance; and addresses one of the following emerging finance areas: digital, green, disaster risk, Islamic, municipal, and agriculture finance. ADB as the executing agency will coordinate the selection of the pilot project and the participating DMCs in consultation with ADB operations departments. The activities will not result in adverse environmental and/or social impacts. Details of the pilot project will be prepared during TA implementation.

21. **ADB's procurement.** ADB will purchase necessary software to implement the pilot project. The procurement method will be shopping, with up to six contracts, given the six emerging finance areas (digital, green, disaster risk, Islamic, municipal, and agriculture finance) to be covered by the TA. Procurement of goods will follow ADB's Procurement Guidelines (2015, as amended from time to time) and disposal will follow relevant project administration instructions. Disbursement under the TA will follow ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time).¹⁹

22. **Cofinancier requirements.** Upon funding approval, the TA team will submit semiannual progress reports to the FSDPSF fund manager every 31 July and 31 January, and additional updates (as necessary) on project implementation. For major changes in project scope, duration, or funding arrangement, the TA team should circulate draft memos to the FSDPSF fund manager for initial assessment before an interdepartmental review by the Operations Services and Financial Management Department, the Controller's Department, the Office of the General Counsel, and the Office of Cofinancing Operations, if the project is cofinanced.

E. Governance

23. An ADB staff team from the Sustainable Development and Climate Change Department will monitor and administer individual contracts and manage outputs to achieve TA objectives.

IV. THE PRESIDENT'S DECISION

24. The President, acting under the authority delegated by the Board, has approved the provision of technical assistance not exceeding the equivalent of \$1,250,000 on a grant basis for Strengthening Financial Sector Operations in Asia and the Pacific, and hereby reports this action to the Board.

¹⁸ Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 3).

¹⁹ Procurement Plan (accessible from the list of linked documents in Appendix 3).

<p>1.4 Design the structure of feasibility study reports for the identified pilot projects, including policy recommendations for participating DMCs; and draft at least four reports (Q1–Q4 2019)</p> <p>1.5 Support participating DMCs in implementing the pilot project proposals (Q1–Q4 2020)</p> <p>2. Cross-sector knowledge on financial solutions delivered</p> <p>2.1 Develop the agenda and identify speakers (Q3 2017–Q2 2019)</p> <p>2.2 Discuss the design and delivery of the knowledge events with partner institutions (Q3 2017–Q2 2019)</p> <p>2.3 Nominate DMC participants in coordination with ADB operations departments (Q3 2017–Q2 2019)</p> <p>2.4 Draft knowledge products on identified emerging finance areas and policy recommendations in close coordination with operations departments to ensure operational relevance (Q3 2018–Q2 2019)</p> <p>TA Management</p> <p>Engage topic experts and consultants to (i) identify suitable emerging finance areas fit to test pilot projects, design the project concept, and prepare the feasibility study reports; and (ii) organize designated flagship knowledge events and thematic workshops, and compose knowledge products on selected emerging areas (Q3 2017–Q4 2020)</p>
<p>Inputs</p> <p>ADB: \$500,000</p> <p>Financial Sector Development Partnership Special Fund: \$750,000</p>
<p>Assumptions for Partner Financing</p> <p>Not applicable</p>

ADB = Asian Development Bank, DMC = developing member country, Q = quarter, TA = technical assistance.

^a ADB. 2017. *Review of 2011 Financial Sector Operational Plan*. Manila.

Source: Asian Development Bank.

COST ESTIMATES AND FINANCING PLAN

(\$'000)

Item	Amount	
	ADB^a	Financial Sector Development Partnership Special Fund^b
A. Consultants		
1. Remuneration and per diem		
a. International consultants	75.0	300.0
b. National consultants	50.0	70.0
2. Out-of-pocket expenditures		
a. International and local travel	0.0	15.0
b. Reports and communications	0.0	7.0
B. Training, seminars, and conferences		
1. Facilitators and resource persons	0.0	79.0
2. Travel cost of ADB staff acting as resource persons	0.0	25.0
3. Venue rental and related facilities	0.0	144.0
4. Participants	0.0	100.0
C. Pilot testing		
1. Goods (rental or purchase)	100.0	0.0
2. Works	275.0	0.0
D. Contingencies	0.0	10.0
Total	500.0	750.0

ADB = Asian Development Bank, TA = technical assistance.

Note: The TA is estimated to cost \$1,250,000, of which contributions from the Asian Development Bank and the Financial Sector Development Partnership Special Fund are presented in the table above.

^a Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-other sources).^b Established by the Asian Development Bank. Financing partner: the Government of Luxembourg.

Source: Asian Development Bank estimates.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/LinkedDocs/?id=50374-001-TARreport>

1. Terms of Reference for Consultants
2. Pilot Testing of Project Approach
3. Procurement Plan