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Technical Assistance Report

Project Number: 51269-001
Transaction Technical Assistance (TRTA)
October 2018

People's Republic of Bangladesh: Capacity Development for Microenterprise Development Project

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Asian Development Bank

CURRENCY EQUIVALENTS

(as of 15 October 2018)

Currency unit	–	taka (Tk)
Tk1.00	=	\$0.0119
\$1.00	=	Tk83.75

ABBREVIATIONS

ADB	–	Asian Development Bank
BFP-B	–	Business Finance for the Poor in Bangladesh
MFI	–	microfinance institution
MRA	–	Microcredit Regulatory Authority
PKSF	–	Palli Karma Sahayak Foundation
PO	–	partner organization
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Government of Bangladesh and its agencies ends on 30 June. “FY” before a calendar year denotes the year in which the fiscal year ends, e.g., FY2018 ends on 30 June 2018.
- (ii) In this report, “\$” refers to United States dollars.

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I. THE PROPOSED PROJECT

1. The proposed loan to Bangladesh for the Microenterprise Development Project will finance microenterprises through the Palli Karma Sahayak Foundation (PKSF), an apex development finance and capacity building organization, and PKSF's partner organizations (POs), which are selected microfinance institutions (MFIs). The project will fill the financing gap of microenterprises for rural economic growth and poverty reduction. The project's impact is growth of microenterprises expanded to provide forward linkages to agriculture and generate job opportunities.¹ The outcome is microenterprises' access to MFI financing increased. The project's outputs are (i) funding to MFIs for microenterprise loans expanded, (ii) MFI capacity in microenterprise lending enhanced, and (iii) MFIs' microenterprise development support extended. The project is expected to have tangible benefits for women by providing access to finance and enterprise development support. The cost of the proposed project is \$50 million financed from the Asian Development Bank (ADB) ordinary capital resources (regular loan).

II. THE TECHNICAL ASSISTANCE

A. Justification

2. Microenterprises in Bangladesh are smaller than small and medium-sized enterprises, and the size of their investments is too large for traditional microcredit but too small for bank financing. As Bangladesh's economy grows, demand for microenterprise loans is increasing rapidly. However, a study by Business Finance for the Poor in Bangladesh (BFP-B), based on a survey of 600 microenterprises, identified inadequate access to finance as the major constraint in developing microenterprises in Bangladesh.² The same study estimates the microenterprise loan demand–supply gap to be Tk437 billion in 2015.

3. While MFIs can be a major microenterprise finance source, MFIs' microenterprise loans are not keeping pace with demand because of (i) MFIs' limited sources of funding, (ii) the limited enabling environment for MFIs' microenterprise operations, and (iii) MFIs' insufficient knowledge of and capacity in microenterprise lending.

4. The Government of Bangladesh established the PKSF in 1990 with the objective of poverty alleviation and sustainable job generation. The PKSF provides loans to its 277 POs, which had total loans outstanding of Tk44 billion in 2017. The PKSF has been an important source of financing for MFIs.

5. To promote nonfarm sector-led rural economic development and poverty reduction, the attached transaction technical assistance (TA) project will assist the PKSF and its POs to enhance capacity in microenterprise finance, promote efficient and sustainable operations, and enhance microenterprise development support.

B. Outputs and Activities

6. The major outputs and activities are summarized in Table 1.

¹ Government of Bangladesh, Ministry of Planning. 2013. *National Sustainable Development Strategy (2010–2021)*. Dhaka.

² BFP-B. 2017. *Diagnostics of Micro-enterprise Lending by MFIs in Bangladesh: Opportunities and Challenges*. Dhaka. BFP-B is a program funded by the Department for International Development of the United Kingdom.

Table 1: Summary of Major Outputs and Activities

Major Outputs	Delivery Dates	Key Activities with Milestones
1. Medium-term institutional strengthening and financing strategy for the PKSf developed (2018 baseline: not applicable)	By December 2020	1.1 Consultant recruitment 1.2 Consultations on institutional strengthening and medium-term financing strategy development 1.3 Dissemination workshop on medium-term financing strategy
2.a Gender-inclusive microenterprise finance operational guidelines for MFIs improved (2018 baseline: not applicable)	By December 2020	2.1 Consultant recruitment 2.2 MFI consultations for microenterprise lending operational guidelines improvement
2.b 80 POs trained on microenterprise lending operations (2018 baseline: not applicable)	By December 2020	2.3 MFI training on microenterprise lending
2.c At least 10,000 microenterprise borrowers from 3 POs enrolled in a mobile-based microenterprise finance application and received training, of whom at least 70% are female (2018 baseline: not applicable)	By December 2020	2.4 Consultants recruitment 2.5 POs' IT system review conducted, and online connectivity support plan developed 2.6 Online connectivity support plan implemented 2.7 POs' IT training conducted 2.8 Pilot PO selection and mobile application adaptation plan 2.9 POs' system development and training 2.10 Client information dissemination and training
3.a MFIs' microenterprise cluster development support scheme implemented for at least 3 enterprise clusters covering at least 1,000 microenterprise borrowers, of whom at least 70% are female (2018 baseline: not applicable)	By December 2020	3.1 Consultant recruitment 3.2 Microenterprise cluster selection and enterprise support scheme plan development 3.3 Support scheme plan implementation
3.b At least 3 microenterprise products branded by PKSf uploaded in e-commerce platform (2018 baseline: not applicable)	By December 2020	3.4 Microenterprise e-commerce platform development 3.5 Microenterprise e-commerce platform rollout

IT = information technology, MFI = microfinance institution, PKSf = Palli Karma Sayahak Foundation, PO = partner organization.

Source: Asian Development Bank estimates.

C. Cost and Financing

7. The TA is estimated to cost \$550,000, of which \$500,000 will be financed on a grant basis by the Financial Sector Development Partnership Special Fund.³ The PKSF will provide counterpart support in the form of counterpart staff and other in-kind contributions. Disbursement will follow ADB's *Technical Assistance Disbursement Handbook* (2010, as amended from time to time). The TA will be implemented over 2 years. The key expenditure items are listed in Appendix 1.

D. Implementation Arrangements

8. ADB will administer the TA. ADB's South Asia Department will select, supervise, and evaluate the consultants. ADB will recruit (i) international consultants using individual consultant selection, and (ii) a firm for national consultants using the quality- and cost-based selection method with a quality–cost ratio of 90:10 because of the highly specialized expertise needed. An input-based contract will be used for the firm contract. ADB will procure consulting services following the ADB Procurement Policy (2017, as amended from time to time) and open competitive bidding procedures explained in the staff instructions for ADB-administered consultants. Procurement of goods and non-consultancy services, if any, will be procured by following procedures explained in the staff instructions for TA procurement of goods, works, and non-consultancy services. The implementation arrangements are summarized in Table 2.

Table 2: Implementation Arrangements

Aspects	Arrangements		
Indicative implementation period	January 2019–December 2020		
Executing agency	Financial Institutions Division, MOF		
Implementing agency	PKSF		
Consultants	To be selected and engaged by ADB		
	Individual: Individual consultant selection	International consultancy service for (i) technical advisor for Microenterprise Development Project (3 person-months); (ii) microenterprise finance specialist (3 person-months); and (iii) e-commerce specialist (3 person-months)	\$337,680
	Firm: QCBS (90:10), BTP, input-based contract	National consultancy service for (i) mobile microfinance specialist (6 person-months), (ii) microenterprise development specialist (4 person-months), and (iii) financial analysis specialist (6 person-months)	\$146,320
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2010, as amended from time to time).		
Asset turnover or disposal arrangement upon TA completion	The consultants will turn over any fixed assets to be purchased during the TA, such as office equipment, to the PKSF upon TA completion. ADB will encourage the consultants to rent or lease fixed assets where possible.		

ADB = Asian Development Bank, BTP = biodata technical proposal, MOF = Ministry of Finance, PKSF = Palli Karma Sahayak Foundation, QCBS = quality- and cost-based selection, TA = technical assistance.

Source: Asian Development Bank.

³ Established by ADB. Financing partner: the Government of Luxembourg.

COST ESTIMATES AND FINANCING PLAN
(\$)

Item	Amount
A. Financial Sector Development Partnership Special Fund^a	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	305,680
ii. National consultants	116,000
b. Out-of-pocket expenditures	
i. International and local travel	42,950
ii. Training, seminars, survey, and conferences	16,000
2. Contingencies	19,370
Total	500,000

Note: The technical assistance (TA) is estimated to cost \$550,000, of which contributions from the Financial Sector Development Partnership Special Fund are presented in the table above. The Palli Karma Sahayak Foundation (PKSF) will provide counterpart support in the form of counterpart staff, and other in-kind contributions. The value of PKSF contribution is estimated to account for 9% of the total TA cost.

^a 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=51269-001-TARreport>

1. Terms of Reference for Consultants