

The logo of the Asian Development Bank (ADB), consisting of the letters 'ADB' in a white serif font on a black square background.

# Technical Assistance Report

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**INTERNAL**

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Transaction Technical Assistance (TRTA)  
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## People's Republic of Bangladesh: Institutional Strengthening for Microenterprise Financing

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**Asian Development Bank**

## CURRENCY EQUIVALENTS

(as of 14 September 2022)

Currency unit	–	taka (Tk)
Tk1.00	=	\$0.010433
\$1.00	=	Tk95.8516

## ABBREVIATIONS

ADB	–	Asian Development Bank
CGF	–	credit guarantee fund
CMSEs	–	cottage, micro, and small-sized enterprises
FID	–	Financial Institutions Division
FSDPSF	–	Financial Sector Development Partnership Special Fund
MFI	–	microfinance institution
MOF	–	Ministry of Finance
PKSF	–	Palli Karma Sahayak Foundation
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., FY2021 ends on 30 June 2021.
- (ii) In this report, "\$" refers to United States dollars.

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## I. THE PROPOSED PROJECT

1. The Microenterprise Financing and Credit Enhancement Project will expand access to finance for unbanked and underbanked microenterprises through Palli Karma Sahayak Foundation (PKSF), a state-owned wholesale microfinance and development organization, which will onlend to its partner microfinance institutions (MFIs) – partner organizations. Attached to the project, the technical assistance (TA) for institutional strengthening for microenterprise financing will develop a pilot credit guarantee fund (CGF) to enable partner MFIs to better access commercial sources of funding, and support capacity development of PKSF and partner MFIs to enhance their operating systems for long-term microenterprise growth. Specifically, the attached TA will support (i) establishing and operationalizing the CGF; (ii) developing the capacity of PKSF to operate the CGF that will be established; (iii) designing and implementing institutional development plans for selected partner MFIs that are willing to expand operations through commercial funding, and providing focused training; (iv) conducting regular cost diagnosis on partner organizations to help them reduce operating costs and increase competitiveness; (v) assisting partner MFIs to carry out entrepreneurship development training for women microentrepreneurs; and (vi) strengthening partner MFIs’ skills in environmental and social safeguards and climate and disaster risk management to increase microenterprise clients’ awareness of these matters and promote climate change risk adaptation and mitigation to relevant microenterprise business clusters.<sup>1</sup>

2. The project is aligned with the following impact: on-farm and off-farm jobs created through institutional and financial support to cottage, micro, and small enterprises (CMSEs or microenterprises).<sup>2</sup> The project’s outcome is microenterprises’ access to MFI financing increased. The project has three outputs: (i) PKSF’s funding to MFIs for microenterprise financing expanded; (ii) commercial sources of funding to MFIs for microenterprise financing increased; and (iii) PKSF’s and partner MFIs’ institutional capacity and viability enhanced. The project will be financed with a \$200 million loan from the concessional ordinary capital resources of the Asian Development Bank (ADB).

## II. THE TECHNICAL ASSISTANCE

### A. Justification

3. The Government of Bangladesh’s 8th Five-Year Plan (July 2020–June 2025) aims to achieve 8% average annual economic growth and strengthen the existing social security system while eliminating poverty and narrowing inequality (footnote 2). To generate employment and rapidly reduce poverty, the 8th Five-Year Plan recognizes CMSEs as the largest sustainable source of employment for poverty reduction. The plan commits to promote CMSEs with innovative financial solutions to improve their access to commercial sources of credit. The plan also envisages developing a credit guarantee scheme to help reduce credit risks and to provide start-up capital for CMSEs.

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<sup>1</sup> These would include agriculture, livestock, poultry, aquaculture, and manufacturing business clusters, and potentially other clusters such as food processing, trade, and services that are also relevant to climate change adaptation and mitigation.

<sup>2</sup> Government of Bangladesh, Planning Commission. 2020. *8th Five-Year Plan, July 2020–June 2025: Promoting Prosperity and Fostering Inclusiveness*. Dhaka.

4. In Bangladesh, about 8 million economic establishments operate, employing 25 million people in 2013.<sup>3</sup> Of these establishments, roughly 89% are microenterprises and the average employment per microenterprise is estimated at 1.98 persons.

5. Despite the importance of microenterprises to the economy and employment, microenterprise growth faces both financial and nonfinancial constraints. Of these constraints, limited access to finance is by far the largest.<sup>4</sup> Banks and MFIs are both potential sources of financing for microenterprises; however, banks rarely finance microenterprises because of the difficulty and high cost of assessing microenterprise credit risks. Although MFIs can be important sources of financing for microenterprises, they too face constraints, including insufficient knowledge and capacity in microenterprise financing; limited enabling environment for microenterprise operations; and limited sources of funding. MFIs face an acute shortage of funding because of limited funding by PKSF and commercial banks, and regulatory restrictions on MFIs' savings mobilization.<sup>5</sup>

6. PKSF funding for MFIs is limited by PKSF's funding constraints. PKSF sources its funding from, loans, and grants from the government and development financing institutions through the government. However, funding from development financing institutions fluctuated from Tk392 million in 2015 to Tk4 billion in 2019.<sup>6</sup> From 2015 to 2019, PKSF's overall funding grew at a compound annual growth rate of 9%. During the same period, PKSF partner MFIs' loan portfolios to their members grew at a compound annual growth rate of 23%. Given PKSF's limited and unpredictable sources of funding, its ability to fulfill partner organizations' funding needs has become increasingly challenging. PKSF's ability to sustainably service its partner MFIs is contingent on PKSF effectively enhancing its operating systems and securing sustainable sources of funding.

7. Except for large MFIs, most MFIs have yet to access commercial sources of funding because of several factors, including limited size of operations, weak governance and risk management practices, and insufficient financial reporting and accounting practices. Bangladesh lacks a specialized local credit guarantee scheme for MFIs, which could potentially improve MFIs' access to commercial sources of funding. For long-term microenterprise growth, it is necessary to improve MFIs' access to commercial sources of funding, while at the same time enhancing PKSF's and partner MFIs' operating capacity.

## B. Outputs and Activities

8. The TA will mainly support the loan outputs and activities as summarized in Table 1.

**Table 1: Summary of Major Outputs and Activities**

Major Outputs	Delivery Dates	Key Activities with Milestones
Output 2: Commercial sources of funding to MFIs for microenterprise financing increased	Q1 2023–Q2 2023 Q1 2023–Q3 2023	2.1 PKSF CGF consultation with partner MFIs and commercial banks conducted

<sup>3</sup> Bangladesh Bureau of Statistics. 2013. *Economic Census 2013*. Dhaka.

<sup>4</sup> Business Finance for the Poor in Bangladesh (BFP-B) Project. 2016. *Diagnostics of Micro-enterprise (ME) Lending by MFIs in Bangladesh: Opportunities and Challenges*. Dhaka.

<sup>5</sup> Regulatory restrictions on MFIs' savings mobilization refer to Microcredit Regulatory Authority Rules 2010. Rule 28 (e) requires that an MFI's total voluntary deposit will not be more than 25% of its total capital. Rule 29 (e) requires that an MFI's total term deposit will not be more than 25% of its total capital.

<sup>6</sup> PKSF and ADB estimates.

Major Outputs	Delivery Dates	Key Activities with Milestones
	<p>Q3 2023–Q4 2023</p> <p>Q4 2023–Q4 2027</p>	<p>2.2 PKSf CGF terms and conditions, business plan, operational guidelines and manuals developed</p> <p>2.3 PKSf CGF launched</p> <p>2.4 PKSf CGF implementation monitoring and evaluation</p>
<p>Output 3: PKSf's and partner MFIs' institutional capacity and viability enhanced</p>	<p>Q1 2023–Q4 2027</p> <p>Q1 2023–Q4 2027</p> <p>Q2 2023–Q4 2027</p> <p>Q3 2023–Q4 2027</p> <p>Q3 2023–Q1 2025</p> <p>Q3 2023–Q1 2026</p> <p>Q4 2023–Q1 2026</p> <p>Q4 2023–Q4 2027</p> <p>Q3 2023</p> <p>Q4 2023–Q4 2027</p> <p>Q1 2024–Q1 2026</p> <p>Q2 2024–Q4 2027</p> <p>Q1 2023–Q4 2027</p>	<p>3.1 PKSf financing strategy, socially and gender-inclusive business plan update, risk management framework, and digital transformation roadmap development and implementation</p> <p>3.2 Partner MFIs cost diagnosis data collected</p> <p>3.3 Partner MFIs operational cost diagnosis conducted</p> <p>3.4 Recommendations provided to partner MFIs based on cost diagnosis</p> <p>3.5 Partner MFI institutional diagnostic review consultation and dissemination</p> <p>3.6 Partner MFI institutional diagnostic review</p> <p>3.7 Partner MFI institutional development plan development</p> <p>3.8 Partner MFI institutional development plan implementation monitoring</p> <p>3.9 Focused partner MFI training plan developed</p> <p>3.10 Focused partner MFI training conducted</p> <p>3.11 TOT to partner MFI in women entrepreneurship development training conducted</p> <p>3.12 Women entrepreneurship development training conducted</p> <p>3.13 Training in environment and social safeguards and climate and disaster risk management conducted</p>

CGF = credit guarantee fund, PKSf = Palli Karma Sahayak Foundation, Q = quarter, TOT = training of trainers.  
Source: Asian Development Bank estimates.

### C. Cost and Financing

9. The TA financing amount is \$1,000,000, of which \$800,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7); and \$200,000 will be financed on a grant basis by the Financial Sector Development Partnership Special Fund.<sup>7</sup> PKSF will provide counterpart contribution in the form of counterpart staff, logistical support, and other in-kind contributions. Disbursement will follow ADB's *Technical Assistance Disbursement Handbook* (2020, as amended from time to time). The TA will be implemented over 5 years. The key expenditure items are listed in Appendix 1. For Financial Sector Development Partnership Special Fund (FSDPSF), eligible expenditures include: (i) consulting services, (ii) capacity building, (iii) advisory services, (iv) pilot of new financing instruments, (v) small equipment and systems procurement, and (vi) support for regional financial cooperation among DMCs. The following are non-eligible expenditures: (i) vehicle purchases, and (ii) salaries for civil servants.

### D. Implementation Arrangements

10. **Consulting services.** ADB will administer the TA. ADB's South Asia Department will select, supervise, and evaluate the consultants. ADB will recruit international and national consultants using individual consultant selection. ADB will procure consulting services following the ADB Procurement Policy (2017, as amended from time to time) and the staff instructions for ADB-administrated consultants. The required consultant inputs include (i) international digital transformation specialist (6 person-months), (ii) international risk management specialist (2 person-months), (iii) international credit guarantee specialist (9 person-months), (iv) international microfinance institution development specialist (9 person-months), (v) national management information system specialist (12 person-months), (vi) national credit guarantee specialist (12 person-months), (vii) national microfinance institution development specialist (12 person-months), and (viii) national safeguards and climate risk specialist (6 person-months).<sup>8</sup>

11. **Procurement of goods and non-consultancy services.** Goods and non-consultancy services, if any, will be procured following procedures explained in the staff instructions for TA procurement of goods, works, and non-consultancy services. Implementation arrangements are summarized in Table 2. For FSDPSF, TA project implementation, supervision, and monitoring are conducted by the concerned departments and offices following ADB's standard policies, procedures, and guidelines for consulting service, and procurement, disbursement, social and environmental safeguards, financial management and reporting, and anticorruption and governance.

**Table 2: Implementation Arrangements**

Aspects	Arrangements		
Indicative implementation period	December 2022–December 2027		
Executing agency	MOF (FID)		
Implementing agency	PKSF		
Consultants	To be selected and engaged by ADB		
	Individual consultant selection	International: (i) digital transformation specialist (6 person-months) (ii) risk management specialist (2 person-months) (iii) credit guarantee specialist (9 person-months)	\$926,691

<sup>7</sup> Established by ADB. Financing partner: the Government of Luxembourg.

<sup>8</sup> Terms of Reference for Consultants (accessible from the list of linked documents in Appendix 2).

Aspects	Arrangements	
		(iv) microfinance institutions development specialist (9 person-months)  National: (i) management information system specialist (12 person-months) (ii) credit guarantee specialist (12 person-months) (iii) microfinance institutions development specialist (12 person-months) (iv) Safeguards and climate risk specialist (6 person-months)
Disbursement	The TA resources will be disbursed following ADB's <i>Technical Assistance Disbursement Handbook</i> (2020, as amended from time to time). The disbursement from each TA fund source will be based on the cost sharing as described in the cost estimates and financing plan (Appendix 1).	

ADB = Asian Development Bank, FID = Financial Institutions Division, MOF = Ministry of Finance, PKSF = Palli Karma Sahayak Foundation, TA = technical assistance.

Source: Asian Development Bank.

**COST ESTIMATES AND FINANCING PLAN**

(\$)

Item	Amount
<b>A. Asian Development Bank<sup>a</sup></b>	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	426,138
ii. National consultants	202,320
b. Out-of-pocket expenditures	
i. International and local travel	40,000
ii. Miscellaneous travel expenses	1,400
2. Training, seminars, workshops, forums, and conferences	25,000
3. Contingencies	105,142
<b>Subtotal (A)</b>	<b>800,000</b>
<b>B. Financial Sector Development Partnership Special Fund<sup>b</sup></b>	
1. Consultants	
a. Remuneration and per diem	
i. International consultants	127,668
ii. National consultants	33,720
b. Out-of-pocket expenditures	
i. International and local travel	10,800
ii. Miscellaneous travel expenses	400
2. Training, seminars, workshops, forums, and conferences	5,000
3. Contingencies	22,412
<b>Subtotal (B)</b>	<b>200,000</b>
<b>Total</b>	<b>1,000,000</b>

Note: Palli Karma Sahayak Foundation will provide counterpart contribution in the form of office space, counterpart staff, logistical support, and other in-kind contributions. The value of PKSF's contribution is estimated to account for 6.7% of the total TA cost.

<sup>a</sup> Financed by the Asian Development Bank's Technical Assistance Special Fund (TASF-7).

<sup>b</sup> 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=51269-003-TARreport>

1. Terms of Reference for Consultants