



FAST Report

Project Number: 53319-001
March 2020

Loan CJSC FINCA Bank Rural Financial Inclusion for Women Project (Kyrgyz Republic)

This is an abbreviated version of the document, which excludes information that is subject to exceptions to disclosure set forth in ADB's Access to Information Policy.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 30 January 2020)

Currency unit	=	som (Som)
\$1.00	=	Som69.85
Som1.00	=	\$0.01431

ABBREVIATIONS

ADB	–	Asian Development Bank
BOD	–	board of directors
BOM	–	board of management
CAGR	–	compound annual growth rate
CEO	–	chief executive officer
FAST	–	Faster Approach to Small Nonsovereign Transactions
FBK	–	CJSC FINCA Bank
FII	–	FINCA International, Inc.
FMH	–	FINCA Microfinance Holdings
FMO	–	Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden NV (Netherlands Development Finance Company)
GDP	–	gross domestic product
MFC	–	microfinance company
MSEs	–	micro and small enterprises
NBKR	–	National Bank of Kyrgyz Republic
NPL	–	nonperforming loan
TA	–	technical assistance

NOTES

- (i) The fiscal year (FY) of the Kyrgyz Republic and CJSC FINCA Bank ends on 31 December.
- (ii) In this report, “\$” refers to United States dollars.

Vice-Presidents	Diwakar Gupta, Private Sector Operations and Public–Private Partnerships Shixin Chen, Operations 1
Directors General	Michael Barrow, Private Sector Operations Department (PSOD) Werner Liepach, Central and West Asia Department (CWRD)
Directors	Christine Engstrom, Private Sector Financial Institutions Division (PSFI), PSOD Tariq Niazi, Public Management and Financial Sector Division (CWPF), CWRD
Team leaders	Ruslan Kurmanbekov, Financial Sector Specialist, CWPF, CWRD Tina Rohner, Investment Specialist, PSFI, PSOD ^a
Team members	Genevieve Abel, Principal Transaction Support Specialist, Private Sector Transaction Support (PSTS), PSOD Conrado Abuel, Investment Officer, Office of the Director General – Risk Analytics Unit, PSOD Ian Bryson, Senior Safeguards Specialist, PSTS, PSOD Ka Seen Gabrielle Chan, Safeguards Specialist, PSTS, PSOD Ulritz Corcuera, Associate Economics Officer, PSTS, PSOD Michael De Los Reyes, Senior Treasury Specialist, Treasury Client Solutions Unit, Treasury Department Manfred Kiefer, Senior Economist, PSTS, PSOD Amanda Satterly, Senior Social Development Specialist, PSTS, PSOD Amiko Sudo, Senior Counsel, Office of the General Counsel

^a Outposted to Georgia Resident Mission

In preparing any country program or strategy, financing any project, or by making any designation of or reference to a particular territory or geographic area in this document, the Asian Development Bank does not intend to make any judgments as to the legal or other status of any territory or area.

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PROJECT AT A GLANCE

1. Basic Data		Project Number: 53319-001	
Project Name	Rural Financial Inclusion for Women Project	Department/Division	PSOD/PSFI
Country	Kyrgyz Republic		
Borrower	CJSC FINCA Bank		
Portfolio at a Glance	https://www.adb.org/Documents/LinkedDocs/?id=53319-001-PortAtaGlance		
2. Sector	Subsector(s)	ADB Financing (\$ million)	
✓ Finance	Inclusive finance		5.01
		Total	5.01
3. Operational Priorities		Climate Change Information	
✓ Addressing remaining poverty and reducing inequalities		Climate Change impact on the Project	
✓ Accelerating progress in gender equality		Low	
✓ Promoting rural development and food security			
Sustainable Development Goals		Gender Equity and Mainstreaming	
SDG 1.2		Gender Equity (GEN)	
SDG 5.1		✓	
SDG 8.10, 8.3			
SDG 10.1		Poverty Targeting	
		General Intervention on Poverty	
		✓	
4. Nonsovereign Operation Risk Rating			
Obligor Name		Obligor Risk Rating	Facility Risk Rating
CJSC FINCA Bank			
5. Safeguard Categorization			
Environment: FI-C		Involuntary Resettlement: FI-C	Indigenous Peoples: FI-C
6. Financing			
Modality and Sources		Amount (\$ million)	
ADB		5.01	
Nonsovereign LIBOR Based Loan (Regular Loan): Ordinary capital resources		5.01	
Cofinancing		0.00	
None		0.00	
Others ^a		0.00	
Total		5.01	
Currency of ADB Financing: Som			

^a Derived by deducting ADB financing and Cofinancing from Total Project Cost.

I. INTRODUCTION

1. This is an eligible transaction under the Faster Approach to Small Nonsovereign Transactions (FAST) framework.¹ The transaction involves a loan of up to Som350,000,000 (about \$5,000,000) to CJSC FINCA Bank (FBK) for the Rural Financial Inclusion for Women Project in the Kyrgyz Republic. The report also describes a technical assistance (TA) grant of up to \$500,000 to FBK for Enhancing Rural Financial Inclusion for Women in the Kyrgyz Republic and, if the President approves the proposed loan, the approval of the TA shall be deemed granted.² The transaction is augmented by separately approved TA totaling \$225,000 to support the National Bank of the Kyrgyz Republic (NBKR) in the introduction of Basel III prudential norms.³

2. The transaction entails the Asian Development Bank (ADB) providing medium-term financing in som to FBK to support micro and small enterprise (MSE) lending targeting women in rural areas. The TA to FBK will focus on building its branchless agent network in rural areas targeting hitherto unserved lower-income clients, with a specific focus on improving financial literacy and access to finance for women. The TA to the NBKR, administered through ADB's sovereign operations, will support the introduction of Basel III prudential norms in the Kyrgyz Republic.

II. THE FINANCIAL INTERMEDIARY

A. Investment Identification and Description

3. With a gross domestic product (GDP) of \$8.0 billion in 2018, the Kyrgyz economy is small and depends highly on international migrant remittances (30% of GDP), as well as on gold ore production (8.5% of GDP—equivalent to 38% of export revenues in 2018). From 2013 to 2018, low oil prices and economic sanctions against the Russian Federation adversely affected worker remittance inflows, limiting GDP growth to 3.5% in 2018. A sharp drop in remittances in 2015 triggered a 29% depreciation of the som. Subsequently, the som stabilized at Som70 to \$1.

4. With 72% of the poor living in rural areas as of 2017, rural poverty is widespread. In 2018, agricultural production accounted for 11.6% of GDP. Of registered MSEs, 57% operate outside the capital, Bishkek.⁴ Although value add per worker improved substantially from 2000 to 2018, agricultural production increased only modestly, resulting in a sharp drop in the contribution of agriculture to GDP (from 34.0% in 2000 to 11.6% in 2018). More than 60% of the 1.1 million farms are run on a subsistence basis. Low rural incomes have led to significant rural-to-urban migration and seasonal migration abroad. The female labor force is concentrated in rural areas, with 67% of self-employed women working in agriculture, mainly in subsistence farming. The income disparity between men and women is reflected in the average wage of women, which is only 75% of the average wage of men (2016). However, women have a notable presence in the business community. Women head 30% of small firms and 37% of medium-sized firms, while 29% of top managers in large enterprises are female.⁵

¹ Asian Development Bank (ADB). 2015. *Faster Approach to Small Nonsovereign Transactions*. Manila.

² The approval authority for this TA is the Director General, PSOD.

³ The TA will support putting in place stress testing and econometric models and training of NBKR staff in identification and managing of micro and macroprudential risks.

⁴ Statistics Kyrgyz Republic. 2018. *Poverty level in 2017*. <http://stat.kg/media/publicationarchive/e6b6504b-fbdc-4699-9cf5-1f13d0eafaa1.pdf>.

⁵ Government of the Kyrgyz Republic, National Statistical Committee. 2017. *Men and Women of the Kyrgyz Republic: Compendium of Gender Disaggregated Statistics 2012–2016*. Bishkek. (p. 98).

5. Notwithstanding the poor performance of agriculture, the rural economy remains an important part of the social fabric, representing two-thirds of the population, which grew annually at 1.8% from 2014 to 2017. In 2018, agriculture accounted for nearly one-third of overall employment in the Kyrgyz Republic, and many of those employed in agriculture were women.

6. **Finance sector overview.** Accounting for 89% of all loans in 2018, banks dominate lending.⁶ Ownership in the banking sector is diversified. Of 25 commercial banks, 13 are majority foreign-owned, representing 65% of banking assets (of which the largest bank controls 14%). Two government-owned banks are ranked third and fourth in terms of banking assets, with a collective share of 21%. The 10 smallest private banks account for only 14% of banking assets. Bank loan growth doubled from end-2016 to March 2019. Because of increasing NBKR capital and risk charges on foreign exchange exposures, the share of som-denominated deposits increased from 41% as of end-2014 to 57% in March 2019, improving the currency risk profile of banks and their clients.

7. Microloans represented 23% (about \$520 million) of the overall loan portfolio in the finance sector in 2018. Three commercial banks (FBK, Bai Tushum Bank, and Kompanion Bank) accounted for 53% of the microloan segment, while the five largest microfinance companies (MFCs) accounted for 22%. The three banks operating in the microfinance segment transformed into banks in or after 2013 to permit mobilization of deposits as a stable funding source. While the MFCs' asset quality improved (the nonperforming loan [NPL] ratio for MFCs decreased from 8.2% in 2016 to 4.9% in 2018) it remains inferior to banks. Overall, MFCs have a limited market presence and are expected to become a target for market consolidation.

8. Since the currency crisis of 2015, banks have significantly reduced lending in foreign currency (from 67% of total loans in 2015 to less than 20% in March 2019) and have improved som-denominated deposit mobilization (from less than 30% in 2014 to 73% in March 2019). The NBKR has managed to keep the exchange rate stable since 2016. The currency-induced credit risk is expected to decline further, with increased capital and risk charges imposed by the NBKR for unhedged exposures. Although still based on Basel I standards, the capital adequacy ratio of banks has been robust, reaching 20% during 2016–2018, supported by NBKR-imposed capital buffers to ensure the buildup of core capital via retained earnings. Increasing net interest margins from 7.0% (2016) to 7.9% (2018) supported earnings and capital buildup, thereby improving return on assets to 1.4% in 2018, albeit this was still below the 2.6% registered in 2014. While the NBKR has issued guidelines for calculating capital charges of market and operational risks, it plans to gradually introduce Basel III prudential norms during 2020–2023.

9. After the sharp currency depreciation, demand for som-denominated loans surged and average interest rates increased to 22.3% in 2016 before easing to 17.7% by March 2019. During the same period, demand for foreign exchange loans almost came to a standstill and average interest rates dropped from 16.1% in 2014 to 10.0% in March 2019. The doubling of the interest rate differential between som and foreign exchange loans from 3.5% (2014) to 7.8% in March 2019 reflects that market demand is impacted by borrowers' improved awareness of foreign currency risks. In addition to government interest subsidies, the Russian–Kyrgyz Development Fund provided highly subsidized lending to corporate clients in 2015, triggering a significant drop in market interest rates for loans issued to companies. Average som deposit market interest rates eased from 6.9% (2014) to 6.3% in March 2019, while those denominated in foreign currency dropped sharply from 3.2% (2014) to 1.4% (March 2019), reflecting a decline in demand for foreign exchange funding.

⁶ NBKR. 2018. *NBKR Bulletin*. Bishkek.

10. **Transaction background.** Given the need for improved access to finance in the Kyrgyz Republic, particularly in rural areas, ADB has sought to identify partners that are commercially sustainable and that are targeting these segments. ADB selected FBK based on FBK's strategy of improving rural financial inclusion via branchless banking targeting and increasing access to finance for women borrowers in rural areas. FBK has 80,000 borrowers, of which 55% are female, with an average outstanding loan size of \$1,117 (2018). With 94% of its loan book in rural areas, it is the prime lender to rural low-income households. ADB has executed similar transactions with financial institutions of the FINCA network in Georgia and Armenia.⁷ ADB's nonsovereign operations in the Kyrgyz Republic does not have long-term exposure to the finance sector. Previously approved transactions include an \$8 million loan to Bai Tushum Bank; however, this transaction was cancelled because of a lack of local currency availability.⁸

11. In 2017, ADB initiated processing a sovereign financial intermediation loan of \$30 million to local financial institutions in the Kyrgyz Republic to increase access to finance for farmers and micro, small, and medium-sized enterprises operating in rural areas outside Bishkek via participating financial institutions.⁹ The Government of the Kyrgyz Republic later insisted on funding to end-users to be provided at highly subsidized interest rates. As a result, the sovereign project was terminated in 2018 and ADB's Private Sector Operations Department and Central and West Asia Department jointly processed a new transaction that resulted in this project under the One ADB approach.

B. Business Overview and Strategy

12. FBK is the eighth largest bank in the Kyrgyz Republic, with its assets accounting for 3.6% of total assets in the banking system in 2018. FBK serves its clients via 62 service outlets, of which 50 are outside the capital. Since 2015, FBK has established a sound deposit funding base that represented 41.7% of its assets in 2018. Because of high profitability, retained earnings facilitated a comfortable equity position that increased at a CAGR of 19.5% from 2016 to 2018. FBK's asset growth was modest because of declining unsecured group loans (CAGR of -24.4%), which became subject to higher capital charges during 2016–2018. As a result of lower asset growth and high deposit growth, outstanding borrowings dropped (CAGR of -34.0% from 2016–2018, representing 22.4% of total assets, down from 52.1% in 2016). To widen its outreach in rural areas and keep costs under control, FBK aims to replace its costly loan officer-based loan origination process with an agent banking system that uses scoring, automated centralized data processing, and financial technology (FinTech) solutions to facilitate lending and other banking services while maintaining good asset quality at an affordable cost. FBK expects that its women clients will be major beneficiaries of this approach. Along with the loan project, ADB has designed TA to support rural outreach to women clients via the agent banking system and related process improvements.

⁷ 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 Project in Georgia*. Manila; and ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Equity Investment in Ameriabank CJSC for Strengthening the Banking Sector for Financial Inclusion Project in Armenia*. Manila.

⁸ ADB. 2015. *Report and Recommendation of the President to the Board of Directors: Proposed Senior Unsecured Loan to Bai Tushum Bank for Broadening Access to Finance Project in Kyrgyz Republic*. Manila.

⁹ ADB. 2017. *Kyrgyz Republic: Rural Financial Inclusion Project*. Manila.

C. Ownership, Management, and Governance

13. Established in 1995 as a nonbank microfinance organization, FBK obtained its banking license in March 2015. FBK is 99.99% owned by FINCA Microfinance Holdings (FMH), a Delaware-registered company controlled by FINCA International, Inc. (FII) through a 62.6% shareholding. Other international shareholders in FMH include the International Finance Corporation (14.4%), Kreditanstalt fuer Wiederaufbau (8.9%), the Netherlands Development Finance Company (FMO; 7.3%), and three international microfinance investment funds: responsAbility (3%), Triodos (2%), and ASN–Novib Fund (1.7%). FII is a United States-based tax-exempt public charity. It owns and operates microfinance institutions in 20 developing countries. Supported by its shareholders, FBK has built a sound credit culture with high integrity standards, responsible finance policies, and quality lending services to low-income households in the Kyrgyz Republic.

14. ADB conducted integrity due diligence.¹⁰ FBK's founding members, shareholders, and managers do not appear to constitute a significant or potentially significant integrity risk, as there is no unresolved or substantiated adverse media or other relevant information related to them. Tax integrity due diligence was not required.

15. **Governance structure.** FBK has a governance structure that includes a two-tier board comprising a board of directors (BOD) and a board of management (BOM). The BOD is responsible for issuing FBK's policies and strategy and supervising their execution. FII nominates FBK's five-member BOD of which two are currently executives of FII. Three BOD members are independent directors. Four members are bankers with extensive banking backgrounds. Through its BOD representation and central management systems, FII exercises strong influence on the BOD and oversight of FBK. The BOD is supported by a (i) remuneration committee, (ii) audit committee, and (iii) risk and compliance committee.

16. The remuneration committee is responsible for top managers' appointments and remuneration. An FII senior staff is the chair and is supported by two additional members. The audit committee is chaired by an independent director and has two additional members. It assists the BOD in its oversight of financial reporting, internal control systems, as well as internal and external audit functions. The risk and compliance committee is chaired by an independent director and has two additional members.

17. **Management.** FBK's BOM is led by the chief executive officer (CEO), M. Saidakmatov. Previously with LFS Advisory GmbH (a microfinance service provider) and CEO of FINCA subsidiaries in Kyrgyz Republic and Jordan, he has more than 18 years of experience in banking. The five-member BOM has extensive experience in financial regulation, microfinance, and retail banking. The BOM is supported by six committees including the asset–liability, credit, arrears, human resources, risk management, and disciplinary committees. The committees are headed by BOM members with well-defined terms of reference. FBK has a risk management framework with an appropriate risk appetite statement and mechanisms to monitor all material risks, including credit, operational, liquidity, and market risks, as well as the bank's economic capital, regulatory capital adequacy, and other regulatory compliance limits.

D. **CONFIDENTIAL INFORMATION DELETED**

¹⁰ ADB. 2003. *Enhancing the Asian Development Bank's Role in Combating Money Laundering and the Financing of Terrorism*. Manila.

III. THE ADB ASSISTANCE

A. The Assistance

18. ADB's assistance comprises a senior loan of up to Som350 million (about \$5 million) to FBK, to be provided as two consecutive loans, each with a tenor of 2 years (i.e., total tenor of about 4 years). ADB's assistance also includes TA of up to \$500,000 to FBK. The TA will support expansion of cost-effective services to FBK's rural clients, especially women, and broaden FBK's service offerings via the buildup of an agent network.¹¹

B. Implementation Arrangements

19. **Use of proceeds.** FBK will use all of the loan proceeds to onlend to eligible individual female farm and rural enterprise subborrowers, and to enterprises led by women operating in agriculture and agro-processing outside of Bishkek. Subloans may not exceed Som1,400,000 (\$20,000). An eligible enterprise led by women is defined as a business that is (i) at least 50% owned by women; or (ii) at least 20% owned by women with at least one woman holding a key leadership position such as CEO, president, vice-president, or chief accounting officer, and at least 30% of the BOD composed of women where such board exists.

20. **Monitoring.** ADB will monitor the transactions, and prepare annual monitoring reports.¹² FBK will provide ADB with financial and other reports at predetermined intervals and as requested, including annual audited financial statements, quarterly compliance certificates, semi-annual progress reports, annual development effectiveness monitoring reports, annual environment and social performance reports and TA progress reports from FBK.

C. Value Added and Rationale of ADB Assistance

21. **Broadening access to rural finance.** The rural lending market is still nascent in the Kyrgyz Republic. The transaction will improve financing on a broader scale to lower-income entrepreneurs and farmers in rural areas. ADB expects to secure som funding through ADB bonds to help eliminate FBK's and its subborrowers' exposure to currency risk.

22. **Supporting the buildup of branchless banking services.** FBK converted into a bank in 2015 and is expanding its product offerings to better serve underbanked segments of the population. The transaction will support its new initiative to serve lower-income women farmers and enterprises in remote areas, thereby helping to reduce rural poverty and improve living conditions.

23. **Improving financial inclusion for women in rural Kyrgyz Republic.** Low rates of land ownership and lower incomes impede women from fully benefiting from the Kyrgyz banking services industry, especially in rural areas. FBK plans to expand its coverage from lending to full banking services and to concentrate on improving women's financial literacy—moving from a credit-only approach to services such as savings and insurance that can mitigate the volatility of women's incomes, especially in rural areas. A TA project (para. 38) and gender action plan will support this effort.

¹¹ For more details on the TA, see Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2).

¹² Details of Implementation Arrangements (accessible from the list of linked documents in Appendix 2).

D. **CONFIDENTIAL INFORMATION DELETED**

E. **Technical Assistance**

24. The TA to FBK will support its efforts to expand cost-effective services to its rural clients, especially women, and broaden its service offerings via the buildup of an agent network. Agent banking clients will be located in rural areas where access to finance is limited and financial institutions lack branch capabilities. The agent banking system will help FBK cater to poor and vulnerable segments of the population in the Kyrgyz Republic. The TA is estimated to cost up to \$1.0 million, of which up to \$0.5 million will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6). FBK will cover the remaining cost of the TA, estimated at \$0.5 million. To ensure adequate management, accountability, and ownership of FBK over the execution of services, and timely response to local needs identified during implementation, administration (selection and execution) of the TA will, as successfully executed in similar projects with the FINCA network, be delegated to FBK to be carried out in line with policies and established commercial practices acceptable to ADB. The role of ADB will be to monitor compliance of consultant selection, procurement, and use of funds with ADB policies. FBK will report periodically on the implementation of the TA.¹³

25. Separately from the TA for FBK, ADB sovereign operations approved TA for the NBKR. This TA will support the NBKR to establish a more stress-resilient banking system in the Kyrgyz Republic by introducing the Basel III prudential framework for capital adequacy and liquidity. This TA is estimated to cost \$225,000, to be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 6).

IV. **DEVELOPMENT IMPACT AND STRATEGIC ALIGNMENT**

A. **Development Impact, Outcome, and Outputs**

26. **Impact.** The project is aligned with the following impact: government's strategy to achieve inclusive economic growth supported via improved financial intermediation and broader access to finance for lower-income households in rural areas, as outlined in the Development Program of the Kyrgyz Republic for the period 2018–2022.¹⁴ The focus will be on developing effective banking systems to stimulate MSEs and improve access to affordable lending for agricultural farmers and workers in rural areas.

27. **Outcome.** The project will have the following outcome: availability of FBK's affordable rural MSE financing sustainably improved.¹⁵ The transaction will contribute to FBK growing its portfolio to 76,000 rural MSE and farm borrowers, of which at least 55% will be led by women. Furthermore, the transaction will support rural financial inclusion by increasing access to finance for women borrowers in rural areas. FBK will carry out annual financial literacy trainings through mass awareness events.

28. **Outputs.** The expected outputs of the project will be (i) FBK's capacity for rural MSE financing expanded and (ii) financial literacy of FBK's women borrowers improved.

¹³ Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2).

¹⁴ Government of the Kyrgyz Republic. 2018. *The Development Program of the Kyrgyz Republic for the period 2018–2022*. Bishkek. Approved by the Parliament of the Kyrgyz Republic on 20 April 2018. Decree No. 2377-VI.

¹⁵ The design and monitoring framework is in Appendix 1.

B. Alignment with ADB Strategy and Operations

29. **Consistency with ADB strategy and country strategy.** The transaction supports the following key operational priorities of ADB's Strategy 2030: (i) operational plan for priority 2: accelerating progress in gender equality particularly as it relates to economic empowerment through greater financial inclusion; and (ii) promoting rural development and food security.¹⁶ The transaction also supports accelerating progress in gender equality through the gender action plan. The transaction is consistent with the government efforts to promote the well-being of its citizens and ADB's country partnership strategy for the Kyrgyz Republic, 2018–2022.¹⁷

30. **Consistency with sector strategy and relevant ADB operations.** ADB's engagement has contributed to deepening the finance sector in the Kyrgyz Republic. In 2011, ADB provided a nonsovereign loan totaling \$10 million to Kyrgyz Investment and Credit Bank. ADB approved funding for a sovereign policy -based program in 2017 and a new program is anticipated for 2020 to improve the investment climate.¹⁸ The attached TA will introduce a forward-looking prudential supervision approach for the banking system in line with the Basel III framework, with emphasis on capital adequacy and liquidity. ADB's Central and West Asia Department also supported the due diligence of this transaction through dedicated staff. This project will contribute to ADB efforts to achieve Sustainable Development Goal 5: achieving gender equality and empowering all women and girls.

31. **Support for base of the income pyramid.** ADB funding to FBK will help MSEs and agricultural farmers, particularly low-income households headed by women, to access microenterprise loans, thereby improving their living conditions. This transaction targets the lower-income segment, with the average loan size projected to be less than \$2,000 until 2024. The transaction will improve access to finance for population segments at the base of the income pyramid, will have a significant development impact, and will contribute to Sustainable Development Goal 10 (reducing inequality within and among countries). Therefore, this transaction supports an inclusive business model.

32. **Lessons from previous operations.** ADB learned from previous transactions in the Caucasus and Central Asia that providing loans in local currency is important to reduce currency-induced credit risk for targeted beneficiaries. The selection of a qualified intermediary such as FBK, which is part of the well-established global FINCA microfinance banking network, and the provision of the attached TA will support the provision of cost-effective branchless services for beneficiaries in remote rural areas. Finally, the collaboration of ADB with the government and central bank via sovereign, nonsovereign, and treasury operations has facilitated the development of capital markets, especially the provision of local currency financing through the issuance of local currency bonds.

V. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

33. Category FI (treated as C). ADB has categorized the investment in compliance with ADB's Safeguard Policy Statement (2009). ADB has assessed the investment's potential environment

¹⁶ ADB. 2018. [*Strategy 2030: Achieving a Prosperous, Inclusive, Resilient, and Sustainable Asia and the Pacific*](#). Manila.

¹⁷ ADB. 2018. [*Country Partnership Strategy: Kyrgyz Republic, 2018–2022—Supporting Sustainable Growth, Inclusion and Regional Cooperation*](#). Manila.

¹⁸ ADB. 2017. [*Report and Recommendation of the President to the Board of Directors: Proposed Policy-Based Loans for Subprogram 3 to the Kyrgyz Republic for the Investment Climate Improvement Program*](#). Manila.

and social impacts, its risks associated with FBK's existing and likely future loans to its customers, and its commitment and capacity for environmental and social management. During due diligence, ADB agreed with FBK to limit the subloan size to Som1.4 million (about \$20,000). FBK's MSE activities to be funded under the transaction have minimal or no adverse environmental impacts and are unlikely to cause involuntary resettlement impacts or affect indigenous peoples. FBK will (i) apply ADB's prohibited investment activities list; (ii) exclude funding by ADB of activities with categories A and B for environment and social safeguard impacts; (iii) ensure that investments using ADB funds comply with ADB's Safeguard Policy Statement and abide by applicable national laws and regulations, including labor laws, pursuant to ADB's Social Protection Strategy; and (iv) take measures to comply with internationally recognized core labor standards. The borrower will confirm this in their periodic reports to ADB and need not apply any other specific safeguard or social requirements. The project is not expected to have climate change impact.

34. **Gender equity as a theme.** Following ADB's Policy on Gender and Development (1998),¹⁹ FBK has incorporated measures to promote gender equality and women's empowerment in its business activities which enables the project to achieve the gender category of gender equity as a theme. Key features of the gender action plan include application of the full ADB loan proceeds for onlending of MSE loans to female customers, improving financial service outreach to rural MSEs by establishing a branchless agent banking system (well-integrated with its existing branch infrastructure), implementing a comprehensive women-focused financial literacy program, and carrying out two impact assessments of FBK's women financial literacy program via the attached TA.

B. Anticorruption Policy

35. FBK was advised of ADB's policy of implementing best international practices relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism; and remedies for ADB in the event of noncompliance.

C. CONFIDENTIAL INFORMATION DELETED

D. Assurances

36. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),²⁰ ADB will proceed with the assistance upon establishing that the Government of the Kyrgyz Republic has no objection to the assistance to FBK. ADB will enter into suitable finance documentation in form and substance satisfactory to ADB.

VI. THE PRESIDENT'S DECISION

37. The President, acting under the authority delegated by the Board, has approved the loan of up to Som350,000,000 (about \$5,000,000) from the ordinary capital resources of the Asian Development Bank (ADB) to CJSC FINCA Bank for the Rural Financial Inclusion for Women Project in the Kyrgyz Republic, and hereby reports this action to the Board.

¹⁹ ADB. 1998. *Policy on Gender and Development*. Manila.

²⁰ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK

Impact the Project is Aligned with			
Government's strategy to achieve inclusive economic growth supported via improved financial intermediation and broader access to finance for lower-income households in rural areas, as outlined in the Development Program of the Kyrgyz Republic for the period 2018–2022. ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
Outcome Availability of FBK's affordable rural MSE financing sustainably improved	By end 2024: a. FBK's annual loan disbursements to rural MSEs ^b and farmers increased to Som5.8 billion (December 2018 baseline: Som4.1 billion) b. FBK's annual loan disbursements to rural MSEs led by women ^c and farms increased to Som3.5 billion (December 2018 baseline: Som2.3 billion) c. Number of active rural MSEs and farm borrowers reached 76,000 (December 2018 baseline: 59,000) d. Number of active rural MSEs led by women and farm borrowers reached 43,000 (December 2018 baseline: 32,000) e. Number of agent banking clients in rural areas reached 30,000 (December 2018 baseline: 0) f. Number of female agent banking clients in rural areas reached 17,000 (December 2018 baseline: 0)	a.–f. FBK's annual development effectiveness monitoring reports to ADB	Macroeconomic instability affects income of targeted households and their debt service capacity, undermining lender performance. Mandated interest rate caps undermine viability of lending to low-income target group.
Outputs 1. FBK's capacity for rural MSE financing expanded 2. Financial literacy of FBK's women borrowers improved	By 2024: 1a. FBK established agent banking service system via at least 100 agents, of which at least 10% are female (December 2018 baseline: 0) 1b. FBK agents trained to deliver quality banking services (December 2018 baseline: Not applicable) 2a. Comprehensive women-focused financial literacy program established. (December 2018 baseline: Not applicable) 2b. FBK carried out at least 100 financial literacy trainings, including digital financial	1a.–2c. FBK's annual development effectiveness monitoring reports to ADB	Demand for lending to rural female MSEs and farmers is insufficient because of macroeconomic instability.

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting Mechanisms	Risks
	<p>literacy, targeting 10,000 female clients in rural areas. (December 2018 baseline: 0)</p> <p>2c. FBK carried out two impact assessments of its financial literacy program for female clients by 2022 and 2024 (December 2018 baseline: Not applicable)</p>		
Key Activities with Milestones <ol style="list-style-type: none"> 1. Sign loan agreement by June 2020. 2. Make first disbursement by December 2020. 3. Execute technical assistance agreement by June 2020. 4. FBK deploys Som350 million loan funded by ADB by 2022. 5. Roll-out women-focused financial skills training in rural areas by December 2022. 			
Inputs ADB Senior loan: Som350 million Technical assistance: \$500,000 FBK Technical assistance: \$500,000 equivalent in som			
Assumptions for Partner Financing Not applicable			

ADB = Asian Development Bank; FBK = CJSC FINCA Bank; MSEs = micro and small enterprises.

^a Government of the Kyrgyz Republic. 2018. [The Development Program of the Kyrgyz Republic for the period 2018-2022](#). Approved by the Parliament of the Kyrgyz Republic on 20 April 2018. Decree No. 2377-VI.

^b Under the facility agreement, individual female farm and rural enterprise sub-borrowers, and women led enterprises operating in agriculture and agro-processing in the Kyrgyz Republic, who are located outside of Bishkek, are eligible. The loan size may not exceed Som1,400,000

^c An eligible enterprise led by women is defined as a business that is (i) at least 50% owned by women; or (ii) at least 20% owned by women with at least one woman holding a key leadership position such as chief executive officer, president, vice-president, or chief accounting officer, and at least 30% of the board of directors composed of women where such board exists.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

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