

# Project Administration Manual

Project Number: 49273  
April 2016

Sri Lanka: Small and Medium-Sized Enterprises Line  
of Credit Project

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## **Project Administration Manual Purpose and Process**

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with Government and Asian Development Bank (ADB) policies and procedures. The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The Ministry of Finance as the Executing Agency (EA) and the participating financial institutions are wholly responsible for the implementation of ADB financed projects, as agreed jointly between the borrower and ADB, and in accordance with Government and ADB's policies and procedures. ADB staff is responsible to support implementation including compliance by MOF and the participating financial institutions with their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At Loan Negotiations the borrower and ADB shall agree to the PAM and ensure consistency with the Loan Agreement and Project Agreement. Such agreement shall be reflected in the minutes of the Loan Negotiations. In the event of any discrepancy or contradiction between the PAM and the Loan Agreement and the Project Agreement, the provisions of the Loan Agreement shall prevail.

After ADB Board approval of the project's report and recommendations of the President (RRP) changes in implementation arrangements are subject to agreement and approval pursuant to relevant Government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the PAM.

## ABBREVIATIONS

ADB	=	Asian Development Bank
DMF	=	design and monitoring framework
EA	=	executing agency
GDP	=	gross domestic product
IA	=	implementing agency
LIBOR	=	London interbank offered rate
MOF	=	Ministry of Finance Sri Lanka
PAM	=	project administration manual
PFI	=	participating financial institution
PMU	=	project monitoring unit
PPMS	=	project performance management system
PMR	=	performance monitoring report
QPR	=	quarterly progress report
RRP	=	report and recommendation of the President to the Board
SC	=	steering committee
SME	=	small and medium enterprise
SOE	=	statement of expenditure
SPS	=	Safeguard Policy Statement
SPRSS	=	summary poverty reduction and social strategy
TA	=	technical assistance

## I. PROJECT DESCRIPTION

1. The Small and Medium-Sized Enterprises Line of Credit Project and attached technical assistance (TA) to be provided by the Japan Fund for Poverty Reduction (JFPR) for Cluster Development and SME Finance Innovation are aimed at improving SME's access to banks loans in the Democratic Socialist Republic of Sri Lanka.

2. SMEs are a source of economic growth and employment. Yet, they often struggle to access banks loans because banks typically consider SME loans as riskier and more expensive to administer. The project and TA will address this issue from two angles. First, the credit line will increase the supply of SME credit through an innovative auction that will allow the banks to factor the higher costs of SME loans. Second, the TA will strengthen the supply of creditworthy SMEs through support to three of Sri Lanka's most dynamic industry clusters.

3. The project's impact will be increased employment opportunities for SMEs aligned government policy.<sup>1</sup> The outcome will be strengthened SME's access to finance. The project's outputs will be (i) increased financing to SMEs through formal intermediaries, (ii) enhanced capacity of SMEs in targeted clusters to access financial services, and (iii) strengthened international competitiveness of the information and communication technology and business process outsourcing (ICT-BPO) cluster.<sup>2</sup>

4. **Auction process.** An auction will disseminate funds under the credit line. The detailed auction mechanism is described in Attachment 1. The auction process would efficiently allocate loan proceeds from the credit line to PFIs for providing sub loans to micro, small and medium-sized companies in line with eligibility criteria. Eligible PFIs would be invited to submit a bid on the amount that each PFI would like to borrow from the ADB credit line. Detailed PFI eligibility criteria are specified in Attachment 2. The \$100 million equivalent credit line is expected to be on lent through semiannual auctions managed by an independent third party on behalf of MOF to ensure transparency and prevent collusion. Each auction will allocate \$12.5 million equivalent. The bidder with the highest borrowing rate will receive up to a 100% of the auctioned amount. The bidder with the second highest borrowing rate would receive the remaining—unallocated—funds in case the winning bidder did not bid for the full amount. Successful bidders would not be allowed to participate in a subsequent auction until 80% of the overall bid amount has been disbursed to eligible sub-borrowers. Moreover, 10% of the number of sub loans must be lent to sub-borrowers that have not previously borrowed from a licensed commercial or specialized bank, 5% of the number of sub loans must be lent to sub borrowers that are led by women, and 50% of the total sub loan amount must cumulatively be lent to targeted SME, including SMEs which are either (i) located outside of Colombo District, (ii) borrowing for working capital against which fixed or financial assets are not pledged, (iii) led by women, or (iv) not previously borrowed from a licensed commercial or specialized bank. Detailed eligibility criteria for sub-borrowers are in Attachment 3. Overall, participating banks are limited to 30% or \$30 million equivalent of the overall credit line amount. The auction is expected to allow for a better price discovery because it would determine the true, market-based on lending rates for this particular sub borrower segment.

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<sup>1</sup> Government of Sri Lanka. 2015. *Manifesto, New Democratic Front, A Stable Country, Maithri, Compassionate*. Colombo (President Maithripala Sirisena's election manifesto); and Government of Sri Lanka, Ministry of Finance. 2015. *Statement by the Minister of Finance on Hundred Day Revolution*. Colombo (The revised budget speech).

<sup>2</sup> ADB, *Report and Recommendation of the President: Small- and Medium-Sized Enterprises Credit Line Project*, 2015. Manila.

## II. IMPLEMENTATION PLANS

### A. Project Readiness Activities

Indicative Activities	2015				2016						Responsible Unit	
	09	10	11	12	01	02	03	04	05	06		
Financial and integrity due diligence on participating commercial banks conducted	▲	▲										ADB
Stakeholder analysis and consultation have been undertaken and are reflected in the project documents	▲	▲	▲	▲								ADB
Major risks (including governance) have been identified, and mitigating measures are indicated	▲	▲	▲	▲								ADB
Establish project implementation arrangements	▲	▲	▲	▲	▲	▲	▲					ADB
Loan negotiations				▲								ADB, MOF
Recruitment of a consulting firm for TA			▲	▲	▲	▲						ADB
ADB Board approval						▲						ADB
Loan and project agreements signing						▲						ADB, MOF, PFIs
Government legal opinion provided						▲						MOF, MOJ
Acceptable project management unit in each PFI formed							▲					PFIs
Signing of the subsidiary loan agreements between MOF and PFIs							▲					MOF, PFIs
Loan effectiveness							▲					MOF, ADB
Establish auction rules and guidelines						▲	▲					MOF, ADB
Preparation of formats and benchmarks for performance management system							▲	▲				MOF, ADB
First auction							▲					MOF, PFIs
First loan disbursement									▲			ADB, MOF

ADB = Asian Development Bank, PFI = participating financial institution, MOF = Ministry of Finance, MOJ = Ministry of Justice.

Source: Asian Development Bank.

### B. Overall Project and Implementation Plan

5. The scheduled implementation period is 4 years, 3 months (March 2016–2020).



### III. PROJECT MANAGEMENT ARRANGEMENTS

#### A. Project Implementation Organizations—Roles and Responsibilities

##### 1. Steering Committee (SC)

6. A steering committee (SC) will oversee project implementation. The members of the SC will be composed as follows:

- (i) Secretary to the Treasury or Deputy Secretary to the Treasury (chair)
- (ii) Director-General, Department of Development Finance, Ministry of Finance
- (iii) A representative from the Asian Development Bank
- (iv) A representative from the Export Development Board
- (v) A representative from the Federation of Commerce and Industry
- (vi) A representative from the Central Bank of Sri Lanka
- (vii) Others who may be considered appropriate by GOSL.

7. The SC's Secretariat will be performed by the Project Management Unit (PMU) of MOF. Although PFIs will not be members of the SC, the SC will periodically seek their feedback.

8. The principal function of the SC is to discuss and advise the Executing Agency on policy issues relevant to the implementation and management of the project, inter alia:

- (i) review and approval of major policy changes of operating guidelines;
- (ii) supervision of the project; and
- (iii) any other issues related to the smooth operation of the project.

9. The SC will convene semiannually during the first 12 months of implementation and annually thereafter but can meet on an ad-hoc basis if any issue arises to be discussed immediately.

##### 2. Project Management Unit (PMU)

10. For the purpose of the smooth implementation, the PMU already established for former SME credit lines will be utilized for project implementation. The PMU currently counts 18 staff.

11. The position of project director (PD) will be assigned to the PMU head. The PD will be primarily responsible for project implementation and shall mobilize any further staff resources from MOF necessary for the smooth implementation of the project through appropriate authority of MOF. The project officials may be posted in the PMU on deputation. Preferably, the PMU will be staffed with officials who have prior knowledge of ADB project implementation and management knowledge from similar SME line of credit projects with other development agencies.

12. The various functions of the PMU, which include implementation, administration and operation of the project on behalf of the IA are shown below:

- (i) General Administration and Treasury Section
  - maintenance of MOF imprest and local currency accounts and the PFIs' ledgers;



- preparation of statements of the MOF imprest account, MOF local currency account, and PFIs' ledgers; and
- (ii) Recovery and Monitoring
  - invoicing of PFIs for interest and repayment,
  - preparation of annual reports and project completion report.
- (iii) Administration and Appraisal
  - annual accreditation of PFIs,
  - review of withdrawal applications from PFIs to include verifying compliance with the on-lending requirements for Targeted SMEs and, where appropriate, preparation of IEE,
  - approval and disbursement of the funds to PFIs, and
  - submission of Statement of Expenditure.

<b>Project implementation organizations</b>	<b>Management Roles and Responsibilities</b>
• Ministry of Finance (MOF)	<ul style="list-style-type: none"> <li>➤ Acts as executing agency (EA) for the loan and technical assistance (TA)</li> <li>➤ Responsible for executing the subsidiary loan agreements with the participating financial institutions (PFIs)</li> </ul>
• Department of Development Finance	<ul style="list-style-type: none"> <li>➤ Acts as the implementing agency (IA) for the loan and for component 1 of the TA</li> <li>➤ Leads the project management unit</li> <li>➤ Approves PFI's withdrawal requests to include verifying compliance with the on-lending requirements for Targeted SMEs and, where appropriate, preparation of IEE</li> <li>➤ Prepares a Project Completion Report</li> </ul>
• Central Bank of Sri Lanka (CBSL)	<ul style="list-style-type: none"> <li>➤ Upon loan disbursements being deposited into MOF's imprest account held with CBSL, convert disbursement into local currency and deposit into a separate MOF local currency account that will hold the funds on behalf of the PFI</li> <li>➤ Upon MOF's instructions, transfer funds from MOF's local currency account to PFI accounts</li> <li>➤ Participate in the steering committee and inform in confidence ADB and other steering committee members through appropriate channels of any PFI covenant breaches particularly where relating to corporate governance, reputation/integrity, and anti-money laundering</li> </ul>
• PFIs	<ul style="list-style-type: none"> <li>➤ Assess creditworthiness of sub borrowers and financial viability of subprojects;</li> <li>➤ Implement and ensure compliance with the selection criteria for sub borrowers, subprojects, and sub loans and with covenants in project agreement</li> <li>➤ Ensure that the qualified sub borrowers comply with ADB's Safeguard Policy Statement (SPS) and applicable environmental, health and safety, and social laws and regulations of the borrower</li> <li>➤ Manage budgeting, financial planning, accounting, and auditing of project-related activities</li> <li>➤ Submit to MOF a withdrawal request for approval</li> </ul>

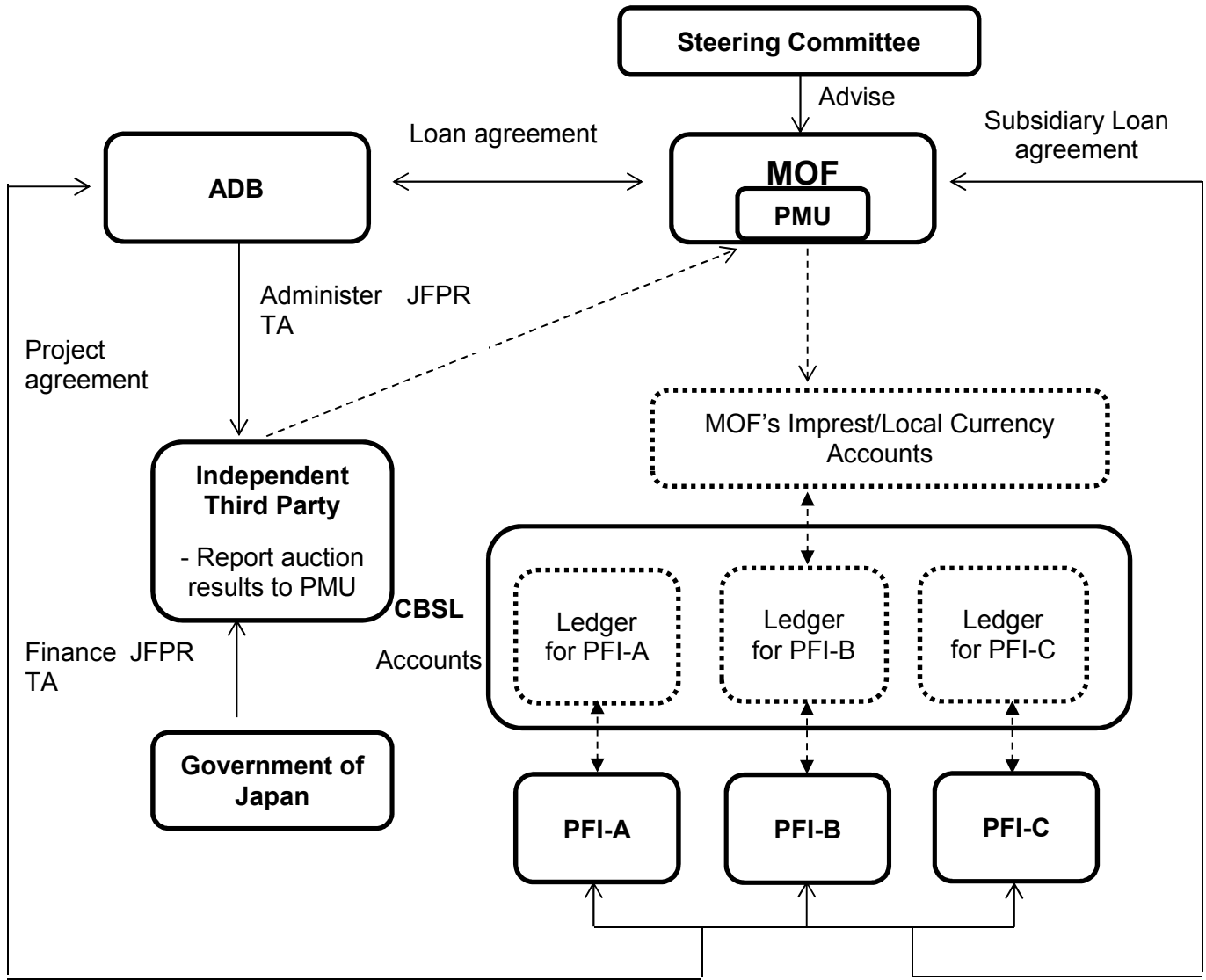
Project implementation organizations	Management Roles and Responsibilities
• ADB	<ul style="list-style-type: none"> <li>➤ Submit through MOF to ADB annual audited entity-level financial statements with the auditors' report and management letter</li> <li>➤ PFI will submit audited statements of fund utilization</li> <li>➤ Submit through the independent administrator to MOF quarterly reports within 60 days from the end of each quarter so long as the PFI has won funding through the auction</li> <li>➤ Submit to ADB annual safeguards monitoring report (Attachment 4)</li> <li>➤ Respond to other information requests as required</li> <li>➤ Prepare a project completion report for ADB within 6 months from project closing date</li> <li>➤ Responsible for overall coordination of the project</li> <li>➤ Monitor PFIs' compliance with project agreement covenants</li> <li>➤ Monitor achievements of the project's targets established in the design and monitoring framework</li> <li>➤ Conduct periodic field reviews of implementation</li> <li>➤ Implement attached TA</li> </ul>

Source: Asian Development Bank

## B. Key Persons Involved in the Implementation

<b>Executing Agency</b> Ministry of Finance	Mr. A.M.P.M.B. Atapattu Director General, Department of Development Finance, Ministry of Finance & Planning +94 11 248 4596 <a href="mailto:atapattu@dfd.treasury.gov.lk">atapattu@dfd.treasury.gov.lk</a>
<b>Participating financial institutions</b>	tbd
<b>Asian Development Bank</b> Public Management, Financial Sector, and Trade Division (SAPF) South Asia Department (SARD)	Mr. Bruno Carrasco Director Fax No.: (63-2) 636-2337 E-mail: <a href="mailto:bcarrasco@adb.org">bcarrasco@adb.org</a>  Mr. Takuya Hoshino Financial Sector Specialist Tel. No.: (63-2) 632-6627 E-mail: <a href="mailto:thoshino@adb.org">thoshino@adb.org</a>

### C. Project Organization Structure



#### IV. COSTS AND FINANCING

13. Please see **Table 1** of the RRP for investment and financing plan.

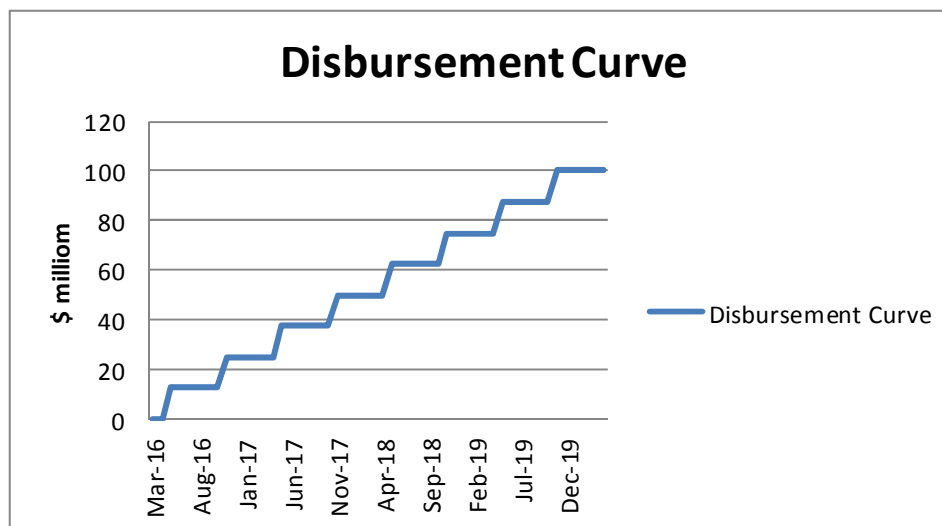
##### A. Allocation of Loan Proceeds

14. **ADB loan (ADB to Government).** Sri Lanka will be the borrower. The ADB loan will have a 10-year term bullet repayment based on disbursement-linked repayment schedule, an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility,<sup>3</sup> a commitment charge of 0.15% per year and such other terms and conditions set forth in the loan agreement.

15. **Relending (Government to PFIs).** Through the auction mechanism, MOF will relend the ADB loan to the PFIs in local currency with a 10-year term with principal due at maturity pursuant to a subsidiary loan agreement with each PFI. GOSL will bear the foreign exchange risks.

16. **Onlending (PFIs to SMEs).** Onlending from the PFIs, for making sub loans to eligible sub borrowers for subprojects will be at interest rates that reflect their cost of funds plus a spread to cover transaction costs and risks reflecting full commercial and competitive terms at the PFIs' discretion.

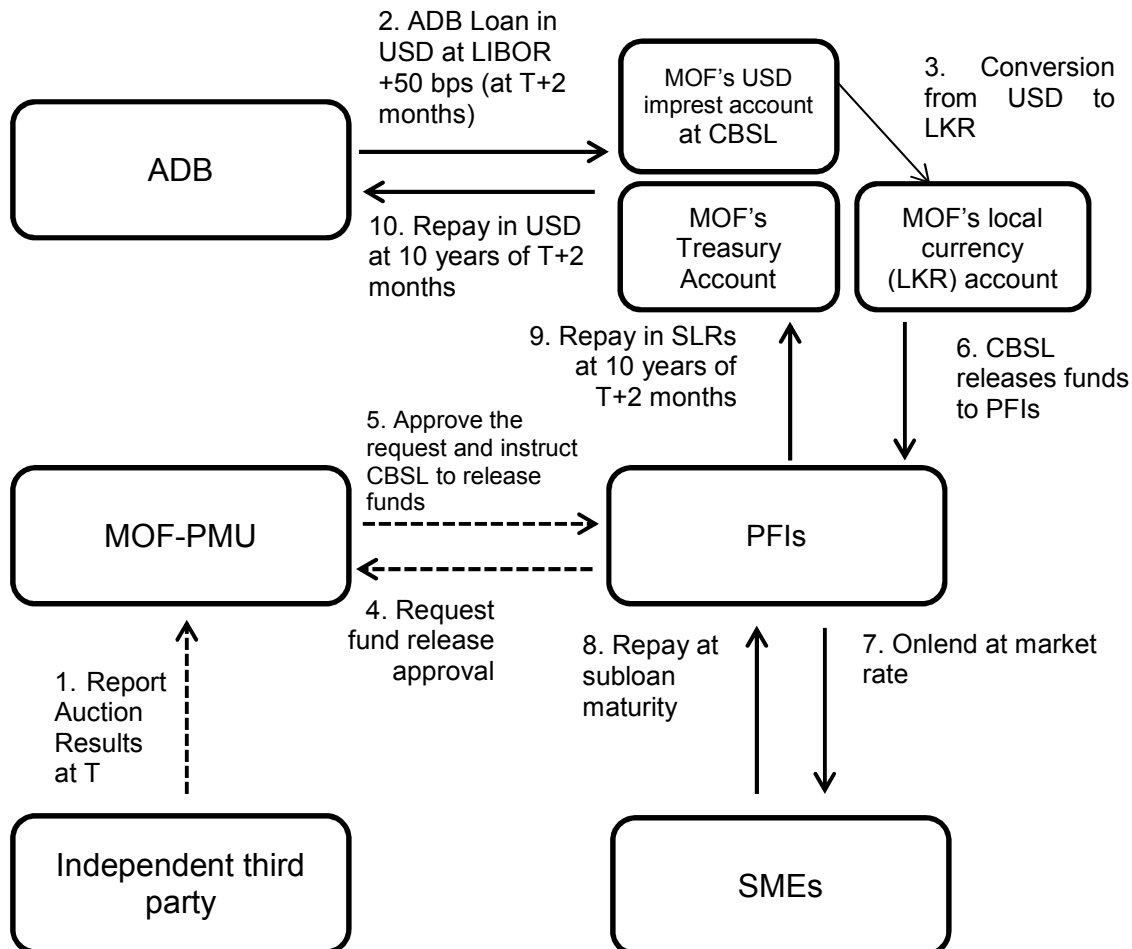
##### B. Disbursement S-Curve



Source: Asian Development Bank.

<sup>3</sup> The interest will not include any maturity premium. This is based on the above loan terms and the Government's choice of repayment options and dates.

### C. Fund Flow Diagram



Source: Asian Development Bank

## V. FINANCIAL MANAGEMENT

### A. Financial Management Assessment

1. A Financial Management Assessment (FMA) has been conducted on the Ministry of Finance (MoF) and ten participating financial institutions (PFIs) in accordance with Asian Development Bank (ADB) Guidelines for the Financial Management and Analysis of Projects (2005) and Financial Management Assessment Technical Guidance Note (2015). The overall financial management risk for the project is assessed as moderate. The PFIs are stringently regulated, have mature financial management systems in place, and often have experience in handling credit line facilities from international financial institutions. An integrity due diligence (IDD) has been undertaken on the 10 PFIs in coordination with the Office of Anticorruption and Integrity. No major concern for disclosure has been identified. Key risks identified include (i) the macro-economic situation and in particular recent balance of payments pressures, and (ii) the ability of PFIs to handle fund flow and monitor eligibility criteria of end-borrowers. Mitigating measures have been proposed including (i) frequent review missions; (ii) the PFIs have been briefed on ADB audit requirements and asked to include the assignment in the work program of their external auditors; and (iii) participation of PFIs in the auction mechanism is regularly

reviewed by ADB. Accordingly, and with the above measures in place, the overall financial management arrangements are considered adequate. MoF is the most appropriate organization to administer the project because of its ready access to information in determining the financial soundness and capabilities of PFIs for providing credit to the SME sector and its prior experience in administering similar donor funded programs. MoF has the necessary financial management capacity—including procedures for making payments, accounting of transactions, financial reporting, auditing of financial statements, and internal control procedures—to avoid misuse or misappropriation of funds and assets.

## **B. Disbursement**

### **General**

17. For each Auction, no withdrawal shall be made from the MOF's local currency account for a PFI until:

- (i) a Project Agreement, in form and substance satisfactory to ADB, has been duly executed and delivered on behalf of ADB and the PFI; and
- (ii) the PFI has provided ADB a legal opinion specifying that the Project Agreement has been duly authorized, executed and delivered on behalf of the PFI, and is legally binding on the PFI in accordance with its terms.

18. The ADB loan will be disbursed according to the 6 months estimated expenditures of the auction mechanism, and in accordance with ADB's Loan Disbursement Handbook (2015).

19. ADB's imprest fund and SOE procedures will be used for disbursements under the loan.<sup>4</sup>

20. **Advance.** The request for advances of up to \$12.5 million<sup>5</sup> should be submitted to ADB by the PMU following each of the 8 auctions over the 4.25 year implementation period. The total outstanding advance to the imprest account should not exceed the estimate of expenditures to be paid through the imprest account for the forthcoming 6 months. The PMU may request for initial and additional advances to the imprest account based on an Estimate of Expenditure sheet (Appendix 9C of Loan Disbursement Handbook) setting out the estimated expenditures to be financed through the account for the forthcoming 6 months. Supporting documents should be submitted to ADB or retained by PMU in accordance with ADB's Loan Disbursement Handbook (2015, as amended from time to time) when liquidating or replenishing the imprest account.

21. **Imprest Account.** MOF will establish and administer a separate imprest account in US dollar at the CBSL for exclusive use of the project to facilitate disbursements and provide accountability. MOF, who will establish the imprest account in its name, is accountable and responsible for proper use of advances to the imprest account. In addition, MOF will establish a separate local currency (LKR) account. After the announcement of successful bidding results, ADB will transfer loan proceeds to the MOF's US dollar imprest account within approximately 10 working days upon receipt of a satisfactory and fully documented request for advance. The US dollar loan proceeds will be converted into Sri Lankan Rupees and deposited in the LKR local currency account as soon as practical. The MOF will maintain a ledger to track how much funding is being held in the local currency account on behalf of each PFI.

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<sup>4</sup> Details at SOE procedures are available in the Loan Disbursement Handbook (2015).

<sup>5</sup> The final amount of the advance request will be determined in line with the bidding results of the respective auctions.

22. **Sub loan Approval by PMU.** To release funds from the separate local currency account, PFIs will submit withdrawal requests to the PMU.<sup>6</sup>

23. **Liquidation.** The PMU will consolidate eligible expenditures and submit to ADB for liquidation. Liquidation will follow statement of expenditures (SOE) procedures (Appendix 9C of Loan Disbursement Handbook). The corresponding bank statement and the imprest account reconciliation statement (Appendix 10C of Loan Disbursement Handbook) are also required to be submitted.

24. **SOE procedures.** SOE procedures will be used for liquidation because the SME sub loans are expected to be numerous and small. SOE records should be maintained with the PMU and made available for review by ADB's disbursement and review mission or upon ADB's request for submission of supporting documents on a sampling basis and for independent audit.

25. **Minimum value per withdrawal application.** The minimum value per withdrawal application is \$100,000 equivalent. Individual payments below this amount should be paid by the MOF and subsequently claimed from the ADB imprest account, unless otherwise agreed to with ADB.

26. **Recycling of reflows from SMEs to PFIs.** As sub loans are repaid to the PFIs prior to their repayment to the Government, PFIs may relend to SMEs. The relending rate is equal to or less than CBSL's most recently published monthly average weighted deposit rate plus the average weighted credit margin that the PFI charged on the initial sub loans. The PFIs must also continue to comply with fiduciary and safeguard covenants in the subsidiary loan agreements with the Government. PFIs shall maintain separate ledgers to manage revolving funds.

### **C. Accounting and Auditing Arrangements**

27. MOF will keep a record of the utilization of funds and will ensure that the record-keeping and accounting undertaken by MOF is in accordance with the national accounting laws and regulations which are consistent with international accounting principles and practices.

28. The PFIs will also maintain separate books and accounts relating to all subloans approved by MOF and funded by ADB. Project financial statements, i.e. statement of utilization of funds will be prepared using the same accounting principles and guidelines as the PFIs statutory financial statements. Each PFI will cause the statement of utilization of funds to be audited in accordance with international standards on auditing and with the Government's audit regulations by an independent auditor acceptable to ADB.<sup>7</sup> The PFIs will prepare and submit the audited statement of utilization of funds for subloans, in the English language within 6 month after the end of the fiscal year.

29. Each auditor report will include audit opinions which cover (i) whether the statement of utilization of funds presents a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework; and (ii) whether or not loan proceeds were used only for the purposes of the project. A management letter shall also be provided, unless already provided with the entity-level financial statements. PFIs shall enable

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<sup>6</sup> A PFI only needs to submit one withdrawal request for a sub loan that is disbursed in tranches.

<sup>7</sup> In the case of the state-owned banks, auditors appointed by the Auditor General constitute an independent auditor.

ADB, upon ADB's request, to discuss the financial statements for the project with the auditors and shall authorize and require such auditors to participate in any such discussions.

30. The PFIs will cause their entity-level financial statements to be audited in accordance with international standards on auditing and with the Government's audit regulations by an independent auditor acceptable to ADB. The level of compliance for each financial covenant contained in the legal agreements for the project needs to be covered. The audited entity-level financial statements, together with the auditors' report, will be submitted in the English language to ADB within one month after their approval by the competent authority.

31. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal project supervision, and followed up regularly with all concerned, including the external auditor.

32. MOF has been made aware of ADB's approach on delayed submission, and the requirements for satisfactory and acceptable quality of the audited financial statements.<sup>8</sup> ADB reserves the right to require a change in the auditor or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

33. Public disclosure of the audit opinion and related statements of fund utilization will be guided by ADB's Public Communications Policy (2011).<sup>9</sup> After review, ADB will disclose these within 14 days the date of their receipt by posting them on ADB's website. The audit management letter and the entity-level audited financial statements will not be disclosed.

## **VI. PROCUREMENT AND CONSULTING SERVICES**

### **A. Advance Contracting and Retroactive Financing**

34. There is no advance contracting or retroactive financing under the project.

### **B. Procurement of Goods, Works, and Consulting Services**

35. Procurement under ADB-financed sub loans will be in accordance with ADB's Procurement Guidelines (2015, as amended from time to time) as they relate to financial intermediary loans. Sub borrowers will be required to undertake procurement in accordance with established private sector or commercial practices that are acceptable to ADB (paragraph 3.12

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<sup>8</sup> ADB approach on delayed submission of the audited statement of utilization of funds and entity-level financial statements: (i) when either the statement of utilization of funds or entity-level financial statements have not been received by due date, ADB will write to the executing and implementing agencies advising that (a) the audit documents are overdue; and (b) if they are not received within the next 6 months, requests for new commitments and disbursement such as new replenishment of imprest accounts and processing of new reimbursement will not be processed; (ii) when either the statement of utilization of funds or entity-level financial statements have not been received within 6 months after the due date, ADB will withhold processing of requests for new commitments and disbursement such as new replenishment of imprest accounts and processing of new reimbursement, ADB will (a) inform the executing and implementing agencies of ADB's actions; and (b) advise that the loan may be suspended if the audit documents are not received within the next 6 months; and (iii) When either the audited statement of utilization of funds or entity-level financial statements have not been received within 12 months after the due date, ADB has the option to suspend the loan.

<sup>9</sup> Available from <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>



of the ADB Procurement Guidelines).

36. All consultants and nongovernment organizations (NGOs) under the technical assistance (TA) will be recruited according to ADB's Guidelines on the Use of Consultants.

### **C. Procurement Plan**

37. A procurement plan is not applicable for financial intermediary loans.

### **D. Technical Assistance**

38. Please refer to section III "Technical Assistance" of the RRP and the appendix on the TA for a description.<sup>10</sup>

39. The TA subproject outcomes will be monitored by MOF, EDB, and ADB through consultants' reports, periodic consultations, and review missions. The disbursements under the TA subproject will be made directly by ADB in accordance with its Technical Assistance Disbursement Handbook.

## **VII. SAFEGUARDS**

40. PFIs will be classified as follows:

- (i) Class C: PFIs that finance only category C subprojects. These are subprojects where the impacts are minimal to null. No environmental assessment is required although environmental implications need to be reviewed and incorporated into the Due Diligence Report (DDR); or
- (ii) Class B/C: PFIs that finance category B and C subprojects. Category B subprojects are those whose impacts are site-specific, some irreversible, and, in most cases, mitigation measures can be designed more readily. An Initial Environmental Examination (IEE) is required. Class B/C PFIs are also required to have an existing Environmental Management System (EMS) that has been approved by ADB.

The EMS aims to: (i) avoid, and when avoidance is not possible, minimize and mitigate adverse impacts of subprojects on the environment and affected people; and (ii) maximize opportunities for environmental benefits.

41. In the event that a PFI finances both Category B and C subprojects, but does not have an EMS that ADB has approved, the PFI may only lend to Category C subprojects that are included in of the Environmental Management System Framework (as may be updated by ADB from time to time during implementation). This will be covenanted the Project Agreement. PFIs still can establish an EMS to qualify it to participate as a Class B/C PFI, subject to ADB's concurrence.

42. In the selection of subprojects, PFIs will ensure that:

- (iii) All subprojects using ADB funds are screened against the Prohibited Investment

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<sup>10</sup> Attached Technical Assistance (accessible from the list of linked documents in Appendix 2 of the RRP).

Activities List (PIAL) of the ADB Safeguard Policy Statement;

(iv) All subprojects using ADB funds with potential environmental and/or social impacts are reviewed and evaluated against safeguard requirements 1-3 of the ADB Safeguard Policy Statement (2009);

(v) All subprojects are reviewed and evaluated against the national laws, regulations, and standards on environment, health, and safety, involuntary resettlement and land acquisition, indigenous peoples, and physical cultural resources; and

(vi) All subprojects will undergo screening and categorization using a checklist as approved by ADB.

43. At subproject identification stage, the safeguard personnel (or other designated officer) of the PFI will work with the subproject company to make a rapid assessment of the potential impacts of the project on the environment and community. A template checklist, approved by ADB, will be designed to guide the team in determining the significance of potential impacts associated with the subproject. Once the checklists and the verification work are completed by the PFI, the subproject will be classified as Category B or Category C.

44. In the categorization of subprojects, it is important to note that the following project categories will be outright rejected in the list of eligible projects for financing: (i) Category A subprojects for environment, involuntary resettlement, or indigenous peoples (i.e., subprojects where the impacts are irreversible, diverse, or unprecedented over an area larger than the sites or facilities subject to physical works); and (ii) Category A or B for involuntary resettlement and indigenous peoples.

45. PFIs that finance subprojects with minimal or no adverse impacts on the environment (Category B and/or C) and have zero impacts on resettlement and indigenous peoples (Category C for both resettlement and indigenous peoples) are preferred. A project has minimal or no impacts on the environment if it does not generate harmful atmospheric emissions and waste byproducts on water and on land. A project has zero impacts on resettlement and indigenous peoples if there is no land acquisition and the customs and traditions of indigenous peoples are kept intact.

### **VIII. GENDER AND SOCIAL DIMENSIONS**

46. Potential gender and social impacts were reviewed. A gender assessment is reflected in the project documents and is an integral part of the project design which is categorized thematically as effective gender mainstreaming (EGM). Overall, the project targets 5% of the subborrowers of the project credit facility to be women. Furthermore, the associated TA subproject will build women entrepreneurs' capacity to access finance resources and services.

47. Initial assessment of the gender situation of SMEs in Sri Lanka was gathered such as follows:

(i) In Sri Lanka, the low female labor participation rate of 39% suggests a large pool of untapped human resource for national economic development. A potential measure to address this is to support women's greater involvement in the SME sector.

(ii) Data from the Ministry of Rural Economic Affairs shows that -- in Sri Lanka -- of the 766,766 entrepreneurs, 24.8% (or 252,915) are women. Of them, 1,190 are involved in the IT sector. No data is available on women entrepreneurs involved in the fruits and vegetables and rubber clusters. As this report did not mention the sizes of the enterprises, it is assumed that the cited number of entrepreneurs pertains to all sizes of enterprises. It is further assumed that the overall percent of women-led SMEs is lower than 24.8%. The ADB Asia SME Finance Monitor 2014 reported a total of active 1,017,480 enterprises in 2013, of which 86.5% (880,066) were micro enterprises and 13% (132,483) were SMEs. No sex-disaggregated data on these enterprises were however provided. These figures suggest the lack of reliable data on women-led SMEs, more so on those involved in the ICT/BPO, fruits and vegetables, and rubber clusters. The gender responsive value chain analysis of these three SME clusters thus aims at, among others, gathering these data in project areas.

(iii) According to the Women's Chamber of Industry and Commerce, women entrepreneurs face four key challenges: (i) lack of skills and cultural barriers to start and run a business and dependence on their husbands for financial support; (ii) lack of access to markets and information on market needs and difficulties in finding new markets for products; (iii) lack of access to finance due to low financial literacy and lack of collateral for bank loans; and (iv) weak government institutional support. The government's recognition, in the upcoming National Policy Framework for SME Development, of the need for stronger support to women-led SMEs and new women entrepreneurs points to greater action of the government on these issues. This project will seek to assist the government to respond to these issues.

48. Consistent with the design criteria of an EGM-categorized project, a gender action plan (GAP) was developed (see next page). The implementing agency of the associated TA project, the Export Development Board, is responsible for ensuring the effective implementation of the GAP and monitoring its progress and completion.

### GENDER ACTION PLAN

Activities (activity numbering corresponds to the design monitoring framework)	Targets and Indicator	Responsible Unit	Timeframe
3. Capacity of SMEs in targeted clusters for accessing financial services enhanced			
3b. By 2018, 500 actual and potential women entrepreneurs from SMEs in the three clusters (ICT/BPO, fruits and vegetables, and rubber) trained in business development and management (including financial literacy) (2015 baseline: 0)			
3b.1 Conduct a gender responsive value chain analysis of the three targeted clusters and develop a strategy for expanding and strengthening women entrepreneurship and financing, and helping them move up the value chain in the three clusters by Q2 2016	<ul style="list-style-type: none"> <li>• Gender responsive value chain analysis of ICT/BPO, fruits &amp; vegetables, and rubber clusters conducted</li> <li>• Strategy for expanding and strengthening women entrepreneurship in the three clusters developed and approved by Export Development Board</li> </ul>	<ul style="list-style-type: none"> <li>• Export Development Board</li> <li>• Consultant organization</li> </ul>	Q2 2016
3b.2 Provide business development services (BDS) to women entrepreneurs (WE) as per the recommendations of the analysis by Q3 2016	<ul style="list-style-type: none"> <li>• Business development services (including accessing credit facility) provided to at least 500 women-owned/led SMEs in three clusters (distribution of 500 in the three clusters to be based on the results of gender responsive value chain analysis)</li> <li>• At least 5% of sub-borrowers of credit facility (of associated loan project) are women-led SMEs</li> </ul>		Q3 2016
3b.3 Assess the capability development needs of WE and design training modules on business development and management (including financial literacy) in three clusters based on identified capability development needs by Q3 2016	<ul style="list-style-type: none"> <li>• Training modules designed based on identified capability development needs of WE</li> </ul>		Q3 2016
3b.4 Launch initiatives to strengthen networks of women entrepreneurs by Q1 2017	<ul style="list-style-type: none"> <li>• At least three forums of WE conducted</li> <li>• Success stories of at least six women entrepreneurs in three clusters (2 stories per cluster) documented and disseminated widely</li> </ul>		Q1 2017
3b.5 Train 500 actual and potential women entrepreneurs in business development and management (including financial literacy)	<ul style="list-style-type: none"> <li>• At least 500 actual and potential WEs trained</li> </ul>		Q4 2018

<b>Activities</b> (activity numbering corresponds to the design monitoring framework)	<b>Targets and Indicator</b>	<b>Responsible Unit</b>	<b>Timeframe</b>
in the three SME clusters by Q4 2018	<ul style="list-style-type: none"> <li>• Business management plans of at least 60% of trained WEs passed the standards/evaluation of trainers</li> </ul>		
4. International competitiveness of ICT/BPO cluster strengthened			
4b. By 2017, at least 500 females participated in career events for working in ICT/BPO cluster (2015 baseline: 0)			
4b.1 Identify economic, social and regulatory barriers that prohibit women from entering and staying in the ICT/BPO cluster, to include an assessment of the cost and benefits of statutory prohibitions on female working hours, and develop a cluster strategy to attract women workers by Q3 2016	<ul style="list-style-type: none"> <li>• Barriers to women's participation in the ICT/BPO cluster identified to include a report that assesses the costs of statutory prohibitions against women working at night</li> <li>• Strategy to attract women workers to enter and stay in the ICT/BPO cluster developed</li> </ul>	<ul style="list-style-type: none"> <li>• Export Development Board</li> <li>• Consultant organization</li> </ul>	Q3 2016
4b.2 Provide support for school career counselors to construct strong network with ICT/BPO professionals by Q1 2017	<ul style="list-style-type: none"> <li>• MOU forged with identified educational institutions</li> <li>• School career counselors regularly updated on developments and work opportunities in the ICT/BPO cluster</li> </ul>		Q1 2017
4b.3 Launch a career forum for females with interest in the ICT/BPO cluster by Q1 2017	<ul style="list-style-type: none"> <li>• Participating schools developed networks with ICT/BPO professionals</li> </ul>		Q1 2017
4b.4 Facilitate participation of at least 500 women in career events in the ICT/BPO by Q4 2017	<ul style="list-style-type: none"> <li>• At least 500 female students and alumni attended career forums on ICT/BPO conducted under the Project</li> </ul>		Q4 2017

BDS = business development services, BPO = business process outsourcing, EAs/IAs = executing agencies/implementing agencies, IT = information technology, ICT = information and communication technology, MOU = memorandum of understanding, PFIs = participating financial institutions, SME = small and medium-sized enterprise, WE = women entrepreneurs

## **IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION**

### **A. Project Design and Monitoring Framework**

49. Please refer to Appendix 1 of the RRP for project design and monitoring framework.

### **B. Monitoring**

#### **1. Project Performance Monitoring**

50. To ensure that the project is managed efficiently and its benefits are maximized, MOF will implement a project performance management system (PPMS) that is satisfactory to ADB. The key performance indicators and assumptions in the design and monitoring framework will be the basis for the system. MOF will have such information made available to review missions and to the Government for future impact assessment surveys. MOF will submit annual monitoring and evaluation reports to ADB for the duration of the project. The PPMS will monitor and evaluate the project information and data to ensure that planned interventions achieve the desired results, including key outcome indicators.

#### **2. Compliance Monitoring**

51. PFIs' compliance with the covenants will be monitored by MOF on the basis of the PFIs' quarterly reports, annual audited entity-level financial statements, and audited statement of utilization of funds.

#### **3. Safeguards Monitoring**

52. PFIs will evaluate subprojects' that are category B for environment on an annual basis. The benchmark for performance will be the ongoing compliance against the applicable environmental requirements. The safeguards staff of the PFIs will prepare an annual environmental performance report (Attachment 4) and submit this to the management of the PFI and to ADB via the PMU for review and approval.

53. During implementation stage, the designated PFI safeguards officer (or other designated officer) communicates with the subprojects companies and conducts an annual performance check to ensure that (i) the subproject company is undertaking the obligations of compliance with all applicable environmental and social safeguard requirements; and (ii) the PFI will promptly report to ADB any actual or potential breach of the compliance requirements through a compilation of incident reports (Attachment 5 has a recommended reporting format the PFIs can use to monitor compliance for category B subprojects for environment and Attachment 6 a recommended reporting format for reporting any environmental incidents). The PFI will supervise and coordinate with the subproject company so that the subproject company can address corrective action, if any.

#### **4. Poverty and Social Actions Plans**

54. While Sri Lanka has a good record in gender equality and related issues, the unemployment rate of women is higher than men. Based on more limited employment opportunities, many women become entrepreneurs engaged in small trade activities, with limited opportunity for expansion based on poor access to economic resources. The project is

categorized as effective gender mainstreaming because it is expected to promote better monitoring, better outreach, and better access to finance for women entrepreneurs seeking to expand or modernize their businesses.

### C. Evaluation

55. To ensure responsive and timely implementation, there will be periodic review missions. There will be regular interaction between the EA, PFIs, and ADB. Annual performance review will be conducted by the Government, MOF, and ADB. In addition, a comprehensive midterm review will be undertaken by the Government, MOF, and ADB about 12 months after the project's first disbursement that will (i) evaluate the scope, design, and implementation arrangements; (ii) assess implementation performance against project indicators; (iii) review and establish compliance with loan covenants; and (iv) identify problems and constraints and, if necessary, recommend changes in the design or implementation arrangements.

56. Within 8 months after the final auction, the EA and IA will submit a project completion report to ADB in a form acceptable to ADB.<sup>11</sup> Subsequently, ADB will field a mission to finalize the project completion report.

### D. Reporting

57. The PPMS is ADB's system for setting program objectives, designing projects, and monitoring and evaluating project performance based on the DMF to ensure that goals are consistently being met in an effective and efficient manner.<sup>12</sup> The PPMS will include the following components:

Name of Document	Submitter	Receiver	Timing/Frequency	Purpose
Advance Request	PMU	ADB	Following each auction	Advance to the imprest account
Withdrawal Request	PFI	PMU	At discretion of PFI	Approval for fund release to PFI's
Statement of Expenditure (SOE)	PMU	ADB	As required	Liquidation
Quarterly Performance Report <sup>a</sup>	PFI	Independent Third Party	60 days after the end of quarter	Screen PFIs' eligibility for the next auction and monitor progress of the project
Independent Third Party Quarterly Report	Independent Third Party	Steering Committee and posted to project website	Within 15 days of the end of the quarter	Consolidates the PFIs' Quarterly Performance Reports; provide quarterly update of project's status

<sup>11</sup> Project completion report format is available at <http://www.adb.org/sites/default/files/institutional-document/33431/pai-6-07a.pdf>

<sup>12</sup> Japan International Cooperation Agency, under its ongoing "Financial Sector Project for the Development of Small and Medium-Sized Enterprises" intervention has developed a detailed and comprehensive project performance monitoring system (PPMS) which will be used as the basis for the development of ADB's PPMS.

Annual PFI Performance Report	PMU	Steering Committee and posted to project website	2 months after the project's annual anniversary	Consolidates the Independent Third Party Quarterly Reports; provides annual update of project's status; tracks progress against the design monitoring framework
Audited statement of Utilization of Funds	PFI	PMU, ADB	Within 6 months of the end of fiscal year	Basis for audited annual project-level financial statements prepared by PMU
Audited Annual Entity-level Financial Statements	PFI	PMU, ADB	Within 1 month of their approval by the relevant authority	Mandatory under ADB policy (OMJ7)
Annual Environmental Performance Report	Class B/C PFI	PMU, ADB	Within 2 months of the end of fiscal year	Mandatory under ADB policy (OMF1)
Project Completion Report	MoF	ADB	Within 8 months of the final auction	Provides initial assessment of the project vis-à-vis the design monitoring framework
GAP implementation report	EDB	PMU, ADB	Quarterly and also included in the Project Completion Report	Provides an assessment of the progress and accomplishment of gender-related target outputs
<p><sup>a</sup> The report will include among other items: (i) original principal amount of each SME loan; (ii) terms including interest rate, tenor and collateral; (iii) sector of activity; (iv) outstanding principal balance; (v) size of SME in terms of number of SME employees and annual turnover; (vi) whether the SME is classified as "women-led;" (vii) location of the SME subprojects (to include inside or outside of Colombo District), (viii) if the SME has not previously borrowed from a licensed commercial or specialized bank, and (vii) purpose of the loan (land, working capital, plant, purchase, or equipment, etc.).</p>				

## E. Stakeholder Communication Strategy

58. ADB will communicate the information about this project and the outcome of this project through its publications, presentations and on its website. ADB will also communicate with the project's internal stakeholders through written documents.

59. The key communication objectives of the project are:

- (i) To inform potential and existing targeted SMEs (located outside of Colombo District, borrowing for non-collateral working capital, led by women and not previously not previously borrowed from a licensed commercial or specialized



- bank) of the opportunities that the project offers including capacity building activities and increased access to credit resources;
- (ii) To empower potential targeted SMEs and encourage them to enter into business ventures;
  - (iii) To strengthen SMEs official network and create a learning environment through sharing of experiences;
  - (iv) To provide public accountability to mitigate the risk of auction collusion; and
  - (v) To create public support for the project.

## **X. ANTICORRUPTION POLICY**

60. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the program.<sup>13</sup> All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the EA and all program contractors, suppliers, consultants, and other service providers. Individuals and/or entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.

61. To support these efforts, relevant provisions will be included in the legal agreements. During project processing, financial management assessment and integrity due diligence were conducted on the applicant PFIs. ADB's handbooks on Anticorruption Policy and Anticorruption and Integrity were given to the Government and MOF during loan negotiations.

62. ADB's Office of Anticorruption and Integrity<sup>14</sup> is the point of contact to report allegations of fraud and corruption among ADB-financed projects or its staff. Anyone coming across evidence of corruption associated with the project may contact below by telephone, facsimile, e-mail, or by mail:

Office of Anticorruption and Integrity  
Asian Development Bank  
6 ADB Avenue, Mandaluyong City  
1550 Metro Manila, Philippines  
Telephone: +63 2 632 5004  
Fax: +63 2 636 2152  
E-mail: [integrity@adb.org](mailto:integrity@adb.org) or [anticorruption@adb.org](mailto:anticorruption@adb.org)

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<sup>13</sup> Available at <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>.

<sup>14</sup> ADB's Integrity Office website is available at <http://www.adb.org/integrity/unit.asp>

## **XI. ACCOUNTABILITY MECHANISM**

63. People who are, or may in the future be, adversely affected by the program may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make a good faith effort to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.<sup>15</sup>

## **XII. RECORD OF PAM CHANGES**

64. All revisions/updates during course of implementation should be retained in this Section to provide a chronological history of changes to implemented arrangements recorded in the PAM.

65. A minor change in implementation arrangements was approved on 29 March 2016 to postpone the disbursement from 2 months after the auction to 3 months after the auction in order to allow the winning PFIs more time to build their SME loan books after the auction. The following tables in the PAM have been revised and are attached as follows: (i) revised project readiness activities (Attachment 7), (ii) revised overall project and implementation plans (Attachment 8), (iii) revised funds flow diagram (Attachment 9); and (iv) revised paragraph in the Auction Mechanism (Attachment 10).

66. A minor change in implementation arrangements was approved on 13 April 2016 to increase the minimum bid size from \$1 million to \$2.5 million. Further periodic changes may be required to the minimum bid amount, and these changes can be effected through agreement of the Executing Agency and SAPF and will be reflected in the Auction Procedures and Rules (Attachment 11). Implementing this change will delay confirmation of the first auction by several weeks. So as not to inadvertently penalize a PFI that wins money at auction, PFIs will be allowed to participate in the September 2016 auction so long as they have disbursed 67% (instead of 80%) of the auctioned funds from the previous auction and disbursed 40% (instead of 50%) of the auctioned funds to Targeted SMEs. This is a one-time exemption that only applies to participation in the September 2016 auction.

A minor change in implementation arrangements was approved on 19 September 2016 to: (i) revise the maximum loan that any participating financial institution (PFI) can quote from US\$12.5 million per bidder to US\$4.167 million. The minimum bid amount is \$2.5 million or as otherwise agreed between the Executing Agency and SPF. Bids must be in increments of \$100,000 unless the bid equals the ceiling (Attachment 12); (ii) The gross principal of loans to a single sub-borrower is capped at Rs. 50 million (Attachment 13); and (iii) PFIs whose environmental management system has not been approved by the ADB may lend to subprojects that are potentially Category C, although not included in the Attachment 1 of the Environmental Management System Framework, provided that the project management unit's safeguard specialist has confirmed eligibility. The safeguard specialist's review would include a site visit, the costs of which the PFI will shoulder. The PMU's safeguard specialist will initially work alongside a SARD environment officer to ensure that he is familiar with ADB's safeguard categorizations (Attachment 13).

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<sup>15</sup> For further information, see <http://www.adb.org/Accountability-Mechanism/default.asp>.

## ATTACHMENT 1 - AUCTION MECHANISM

1. Lending to Targeted SMEs carries higher credit costs (i.e., borrowers lack credit histories, collateral, etc.) and higher operating costs (i.e., marketing to new clients, assisting new borrowers to develop loan proposals, lending outside of Colombo District, etc.). The auction mechanism will allow PFIs to recover these higher credit and operating costs by factoring the costs into their bids and pricing their bids accordingly.
2. Loans to PFIs will be allocated to the highest bidders in 8 semiannual auctions with \$12.5 million available at each auction. For example, if Institution X bids \$3 million at 10%, Institution Y \$8 million at 8% and Institution Z \$12 million at 6%. Then X would receive \$3 million at 10%, Y \$8 million at 8% and Z \$1.5 million at 6%.
3. The minimum bid amount is \$1 million, and bids must be in increments of \$100,000.
4. The auction has a floor price of 1.5% over 6-month LIBOR.
5. A PFI (that was successful under a previous auction) may not participate if one month prior to the next auction it has:
  - (i) Not disbursed at least 80% of the auctioned funds from the previous auction;
  - (ii) Not disbursed at least 50% of the auctioned funds from the previous auction to Targeted SMEs;
  - (iii) Participated in previous auctions and has cumulatively lent to at least 20 sub borrowers, but at least 10% of sub borrowers have not previously borrowed from a licensed commercial or specialized bank and at least 5% of sub borrowers were not women-led enterprises;
  - (iv) Already won bid(s) amounting to \$30 million via previous auction(s); or
  - (v) Already won bid(s) greater than or equal to its regulatory capital.
6. MOF will request ADB to provide advances to MOF's imprest account within 45 days of an auction. During the approximate two months from the auction to disbursement, winning PFIs may begin to identify sub borrowers and submit withdrawal requests to the Department of Development Finance.
7. To release funds from the MOF local currency account, PFIs will submit withdrawal requests to the PMU.<sup>16</sup> Within 3 working days, the PMU will inform the PFI if further information must be submitted. Within 5 working days of receiving all information, the PMU will inform the PFI if the withdrawal request is approved. Within 2 working days of approving a withdrawal request, the PMU will instruct the central bank to disburse funds to the PFI.<sup>17</sup>
8. Upon the PMU's approval of a withdrawal request, it will instruct the central bank to release funding from the MOF local currency account to the PFI.
9. The PFI incurs interest expenses once ADB disburses to the USD imprest account (i.e., two months after the auction). If the PFI has not disbursed all the funds within 18 months of

<sup>16</sup> A PFI only needs to submit one withdrawal request for a sub loan that is disbursed in tranches.

<sup>17</sup> In the event that the PMU approves the withdrawal request prior receipt of the initial advance from ADB, the withdrawal request will be funded two days after ADB's receipt of the initial advance from ADB.

disbursement, it will incur a penalty equal to 50% of its auction bid on the undisbursed funds. The penalty is in addition to interest. The penalty discontinues once the funds are disbursed. The steering committee may elect to waive the penalty in the event of force majeure.

10. In the event that an auction produces results that suggest potential collusion or that are otherwise unfeasible (e.g., all bids equal to the floor rate), the steering committee or ADB may annul an auction's results, restrict perceived abusers, and repeat the auction.

**ATTACHMENT 2 - PARTICIPATING FINANCIAL INSTITUTION CRITERIA**

1. Domestic banks in good standing with the Central Bank of Sri Lanka (CBSL), whether publicly or privately owned, are eligible. Eligibility criteria includes:

- (i) CBSL must confirm that the PFI is in good regulatory standing, including its corporate governance, reputation/integrity, and compliance with anti-money laundering requirements;
- (ii) ADB's due diligence of the PFI reaches a satisfactory conclusion;
- (iii) The PFI is in compliance with CBSL's regulatory capital minimum as of its last audited financial statements;
- (iv) The PFI has a net nonperforming loan ratio less than or equal to 5.0% as of its last audited financial statements;
- (v) The PFI was profitable as of its last audited annual financial statements;
- (vi) The PFI must have tangible equity of at least Rs 1 billion as of its last audited financial statements;
- (vii) The PFI must not have undisbursed funds for any other ADB project, including those with ADB's Private Sector Operations Department. However, if the PFI has an outstanding disbursed loan from ADB, it is eligible so long as it covenants that it will not prepay the existing ADB loan;
- (viii) The PFI must maintain a management information system that can provide quarterly reports on sub loan disbursements, repayment performance, lending spreads, targeted SMEs, and other subproject and sub borrower information;
- (ix) The PFI must consent that ADB can publicly disclose the results of successful and unsuccessful auction bids, disbursements, repayment performance, lending spreads, and lending to Targeted SMEs; and
- (x) The PFI has the ability to maintain separate records of sub-loans under the project.

2. PFIs will ensure that the sub loans finance subprojects with no involuntary resettlement or indigenous peoples impacts under ADB's Safeguard Policy Statement. Furthermore, subprojects may have environmental impacts that are not significant (categorized as B under ADB's Safeguard Policy Statement) only if the PFI maintains an environmental management system acceptable to ADB and that environmental management system has certified that the sub loan is compliant with national laws and ADB's Safeguard Policy Statement. In the absence of such system, the subprojects will have no environmental impact.

3. In addition to these particular criteria, PFI must adhere to other requirements as specified in the Project Agreement.

4. Failure to adhere to these criteria could result in a PFI's exclusion from auctions or a demand to repay to the government any outstanding loans under the project.

### ATTACHMENT 3 - SUBLOAN AND SUB BORROWER CRITERIA

1. PFIs will comply with the following requirements in selecting eligible sub borrowers:
  - (i) sub borrowers must be economically and financially viable;
  - (ii) sub borrowers may not be related parties of the PFI's board or senior management;
  - (iii) sub borrowers (the parent company and any subsidiaries) must have annual turnover under Rs 750 million or less than 300 employees if in manufacturing or 200 employees if in services; and
  - (iv) sub borrowers must contribute equity, if required by the PFIs, to subprojects as per commercial norms.
  
2. PFIs will comply with the following requirements in originating the initial sub loans:
  - (i) 10% of the number of sub loans must be lent to sub borrowers that have not previously borrowed from a licensed commercial or specialized bank;
  - (ii) 5% of the number of sub loans must be lent to sub borrowers that are led by women;<sup>18</sup>
  - (iii) 50% of the total sub loan amounts must cumulatively be lent to "Targeted SMEs," which include SMEs that are:
    - a. located outside of Colombo District (the SME may have a representative office in Colombo District so long as the funds are used for subprojects outside of Colombo District);
    - b. borrowing for working capital against which fixed or financial assets are not pledged;
    - c. led by women, or at least 51% of enterprise ownership is controlled by women, or at least 60% of senior managers are women, or at least 50% of board members are women); or
    - d. not previously borrowed from a licensed commercial or specialized bank.
  
3. If sub loans are repaid to the PFIs prior to their repayment to the government, PFIs may on lend the funds so long as the criteria in paragraph 1 are still met. The relending rate must be equal to or less than CBSL's most recently published average weighted deposit rate plus the average weighted credit margin that the PFI charged on the initial sub loans. The PFIs must also continue to comply with fiduciary and safeguard covenants in the subsidiary loan agreements with the Government.
  
4. Maximum sub loan size is Rs 50 million. No more than 50% of funding may fund sub loans for working capital. Sub loans for three-wheelers are ineligible.
  
5. PFIs will ensure that the sub loans are for financing subprojects with no involuntary resettlement or indigenous peoples impacts under ADB's Safeguard Policy Statement. Furthermore, subprojects may have environmental impacts that are not significant (categorized as B under ADB's Safeguard Policy Statement) only if the PFI maintains an environmental management system acceptable to ADB and that environmental management system has certified that the sub loan is compliant with national laws and ADB's Safeguard Policy Statement. In the absence of such system, the subprojects will have no environmental impact.

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<sup>18</sup> Defined as at least 51% of enterprise ownership is controlled by women, at least 60% of senior managers are women, or at least 50% of board members are women.

6. In addition to these particular criteria, PFI must adhere to other requirements as specified in the Project Agreement.

7. Failure to adhere to these criteria could result in a PFI's exclusion from auctions or a demand to repay to the government any outstanding loans under the project.

**ATTACHMENT 4 - PERIODIC ENVIRONMENTAL PERFORMANCE REPORT FOR CLASS  
B/C PFIs  
(INDICATIVE FORMAT)**

Please provide responses to the questions below. Please include additional sheets or attachments as required to provide details on questions that have been answered Yes. The responsible PFI is required to submit the periodic performance report to ADB.

Name of organization	
Completed by (name and designation)	
Reporting period	

**A. Progress on the Environment and Social Management System (EMS)**

<b>POLICIES AND PROCESSES</b>	<b>YES/NO</b>	<b>REMARKS</b>
Have there been any updates to the ESMS or policy and procedures adopted by your organization during the reporting period?		If yes, please provide copy of the updates
Has senior management signed off on the updated policy/procedure?		If yes, please provide date and internal communication indicating the same
Please give details of any transactions rejected due to environment and/or social concerns		
Please state any difficulties and/or constraints related to the implementation of the ESMS		
Please give details of any material social and environmental issues associated with clients during the reporting period		
In case the existing ESMS is undergoing improvements, what is the action plan being implemented by your organization?		Please provide information or cite recommendation made by ADB's review mission to improve the ESMS and its implementation
<b>CAPACITY</b>	<b>YES/NO</b>	<b>REMARKS</b>
Have there been any changes to the staff tasked to implementing the ESMS?		If yes, please provide details
Please provide the name and contact information of the Environmental/Social Officer or Coordinator who has the overall responsibility for the implementation of ESMS	n/a	Please describe the training or learning activities the Environmental/Social Officer or Coordinator attended during the year
Please provide current staffing of other core ESMS persons in the organization involved with ESMS implementation.	n/a	Please describe the training provided to the ESMS persons and other team members during the year.
What was the budget allocated to the ESMS and its implementation during the year?	n/a	Please provide budget details including staff costs and training as well as any actual costs.
<b>MONITORING</b>	<b>YES/NO</b>	<b>REMARKS</b>
Have there been any accidents / litigation / complaints / regulatory notices and fines? Any incidents of non-compliance with the applicable Environmental and Social Requirements? Any covenants/conditions imposed by the Bank to a subproject company as a result of any safeguard non-compliance?		



**B. Summary of Subprojects that are Category B for Environment**

<b>No.</b>	<b>SME company</b>	<b>Type of business</b>	<b>Environmental safeguard updates</b>	<b>Compliance status vis-à-vis ADB safeguard policies</b>	<b>Corrective action required of PFI to ensure compliance</b>

**ATTACHMENT 5 - SAMPLE FORMAT FOR ANNUAL MONITORING REPORT FOR  
SUBPROJECTS CLASSIFIED AS CATEGORY B FOR ENVIRONMENT**

**A. Subproject Name and Summary Information**

1. Company name
2. Location (address, coordinates, land use, surrounding environmental feature)
3. Sector/subsector
4. Nature / type of business
5. Sub-loan amount
6. Purpose of sub-loan
7. Term of sub-loan

**B. Relevant Environmental Permits or Compliance Certificates**

1. Due diligence and/or audits undertaken during the year (list the number and type of investigations undertaken)
2. Non-conformances report (NCR) and corrective actions report (CAR) (Number of NCRs/CARs resulting from inspections / monitoring / audits etc on approved subprojects)
3. Environmental incidents (any incidents provided by subborrowers, provide details)
4. Training delivered (awareness training on the project ESMS to the environmental staff of SPG and subproject companies)
5. Other environmental impacts including health and safety or social issues arising

**Name and signature**

Name:

Date:

Position:

Phone:

Signature:

Email:

### Environmental Incident Report 5

An environmental incident is an unexpected event that may result in harm to the environment and requires some action to minimize the impact or restore the environment. See page 2 of this form for guidance notes.

Business unit:			
Project name:			
Project number:			
Date of incident:		Time (24:00 format)	
Exact location of incident (see note 1):			
What type of activity the team engaged in when incident occurred:			
Who notified you of the incident? (e.g. employee, local authority, member of public)			
Name and phone number of complainant			
Nature and level of incident (see note 2)	Level <input type="checkbox"/> Major <input type="checkbox"/> Minor  Nature <input type="checkbox"/> Chemical spill (including fuel) <input type="checkbox"/> Air emission <input type="checkbox"/> Noise complaint <input type="checkbox"/> Contaminated water discharged (not muddy water) <input type="checkbox"/> Erosion and sedimentation <input type="checkbox"/> Unauthorized removal of vegetation		<input type="checkbox"/> Other (specify)
Description of the incident (see note 3)	_____ _____ _____ Estimated quantity, volume or area involved (include unit of measure ) _____		
Immediate actions taken and control measures implemented (see note 4)			
Proposed corrective (or preventive action) (see note 5)			
Follow up actions undertaken (see note 6)			

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 Signature over Printed Name

Position

 Date
 

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## ATTACHMENT 6 - GUIDANCE NOTES

### **NOTE 1: Exact location of the incident**

Provide details of the location of the incident in relation to the project site. Include:

- (i) Name of the region
- (ii) Distances from environmentally sensitive areas (e.g. watercourses, conservation reserves)
- (iii) Landmarks, cross streets, etc

### **NOTE 2: Major or minor incident?**

A major incident has occurred if:

- (i) Material has escaped from site, or
- (ii) Clean-up requires external assistance (fire brigade or other emergency services)

If neither of these conditions apply, the incident is rated 'minor'

### **NOTE 3: Description of the project**

Provide a brief, succinct, factual description of the incident including:

- (i) What happened leading up to the incident
- (ii) The material involved (if leak or spill)
- (iii) The estimated volume of spilled or leaked material
- (iv) The area of land or water affected

### **NOTE 4: Immediate actions and control measures**

Describe the actions taken immediately to minimize the impact of the incident.

### **NOTE 5: Corrective and preventive action**

Provide details of actions implemented to clean up and remediate the affected area and actions implemented to prevent the incident from occurring again. Raise a CAR if appropriate.

### **NOTE 6: Follow-up actions**

- (i) Include any actions undertaken or proposed to be undertaken as a result of the incident (e.g. additional training, purchasing new plant, using alternative materials)
- (ii) Forward a copy of the incident report to the project management office following company management review.

## ATTACHMENT 7 - REVISED PROJECT READINESS ACTIVITIES

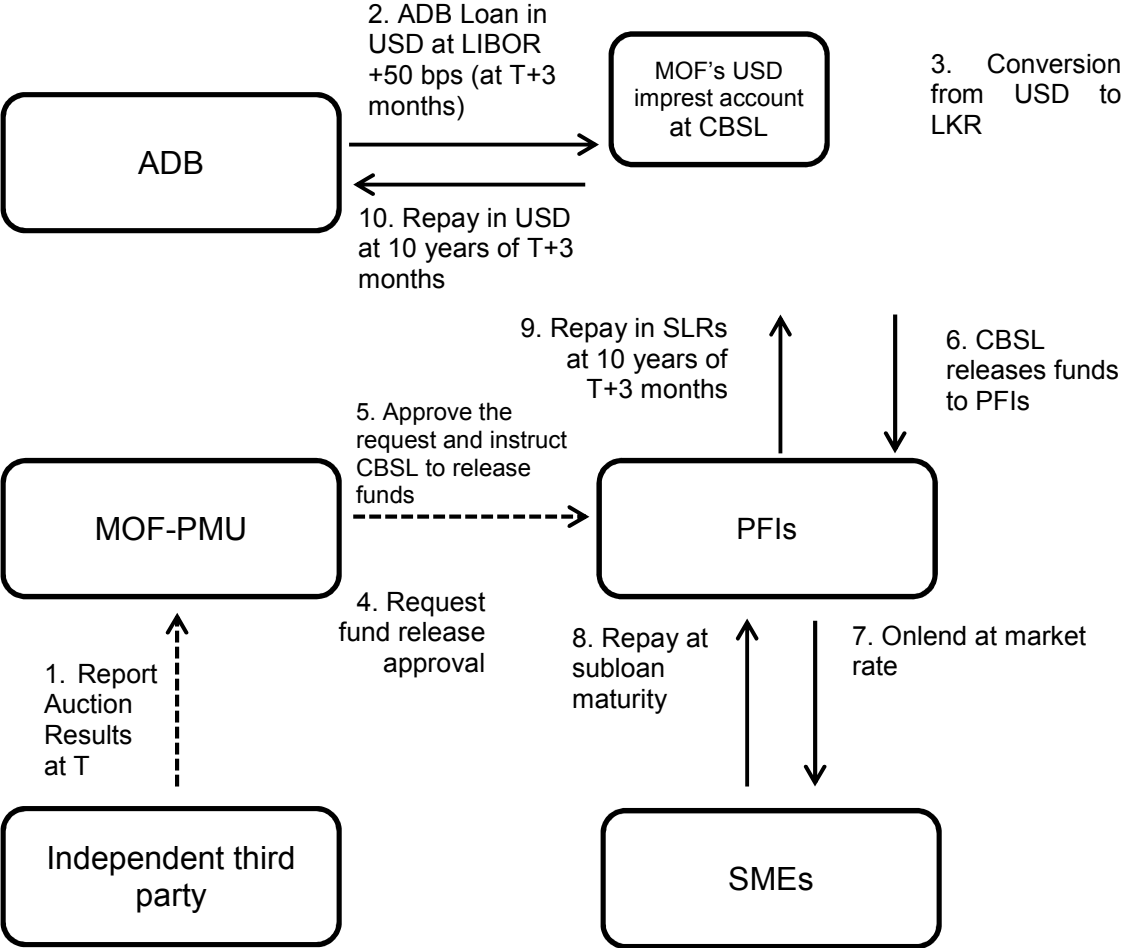
Indicative Activities	2015				2016						Responsible Unit	
	09	10	11	12	01	02	03	04	05	06		
Financial and integrity due diligence on participating commercial banks conducted	▲	▲										ADB
Stakeholder analysis and consultation have been undertaken and are reflected in the project documents	▲	▲	▲	▲								ADB
Major risks (including governance) have been identified, and mitigating measures are indicated	▲	▲	▲	▲								ADB
Establish project implementation arrangements	▲	▲	▲	▲	▲	▲	▲					ADB
Loan negotiations				▲								ADB, MOF
Recruitment of a consulting firm for TA			▲	▲	▲	▲						ADB
ADB Board approval						▲						ADB
Loan and project agreements signing						▲						ADB, MOF, PFIs
Government legal opinion provided						▲						MOF, MOJ
Acceptable project management unit in each PFI formed							▲					PFIs
Signing of the subsidiary loan agreements between MOF and PFIs							▲					MOF, PFIs
Loan effectiveness							▲					MOF, ADB
Establish auction rules and guidelines						▲	▲					MOF, ADB
Preparation of formats and benchmarks for performance management system							▲	▲				MOF, ADB
First auction							▲					MOF, PFIs
First loan disbursement											▲	ADB, MOF

ADB = Asian Development Bank, PFI = participating financial institution, MOF = Ministry of Finance, MOJ = Ministry of Justice.

Source: Asian Development Bank.



ATTACHMENT 9 - REVISED FUNDS FLOW DIAGRAM



**ATTACHMENT 10 - REVISION TO THE AUCTION MECHANISM 10**  
**(Attachment 1 of the Project Administration Manual)**

6. MOF will request ADB to provide advances to MOF's imprest account within 45 days after an auction. During the approximate three months from the auction to disbursement, winning PFIs may begin to identify sub borrowers and submit withdrawal requests to the Department of Development Finance.



**ATTACHMENT 11 - REVISION TO THE AUCTION MECHANISM  
(Attachment 1 of the Project Administration Manual)**

3. The minimum bid amount is \$2.5 million or as otherwise agreed between the Executing Agency and SAPF; bids must be in increments of \$100,000.

11. September 2016 only. PFIs will be allowed to participate in the September 2016 auction so long as they have disbursed 67% (instead of 80%) of the auctioned funds from the previous auction and disbursed 40% (instead of 50%) of the auctioned funds to Targeted SMEs. This is a one-time exemption that only applies to participation in the September 2016 auction.

**ATTACHMENT 12 - REVISION TO THE AUCTION MECHANISM  
(Attachment 1 of the Project Administration Manual)**

2. Loans to PFIs will be allocated to the highest bidders in 8 semiannual auctions with \$12.5 million available at each auction. Each PFI bid is capped at US\$4.167 million.
3. The minimum bid amount is \$2.5 million or as otherwise agreed between the Executing Agency and SPF. Bids must be in increments of \$100,000 unless the bid equals the ceiling.

**ATTACHMENT 13 - REVISION TO THE SUBLOAN AND SUB BORROWER CRITERIA**  
**(Attachment 3 of the Project Administration Manual)**

4. Maximum sub loan size is Rs 50 million. No more than 50% of funding may fund sub loans for working capital. Sub loans for three-wheelers are ineligible. The gross principal of loans to a single sub-borrower is capped at Rs. 50 million

*(please insert after para. 5)*

6. PFI's whose environmental management system has not been approved by the ADB may lend to subprojects that are potentially Category C, although not included in the Attachment 1 of the Environmental Management System Framework, provided that the project management unit's safeguard specialist has confirmed eligibility. The safeguard specialist's review would include a site visit, the costs of which the PFI will shoulder. The PMU's safeguard specialist will initially work alongside a SARD environment officer to ensure that he is familiar with ADB's safeguard categorizations