

Project Administration Manual

Project Number: 54336-001
Loan Number: LXXXX
October 2021

People's Republic of Bangladesh: Supporting Post-
COVID-19 Small-Scale Employment Creation Project

ABBREVIATIONS

ADB	–	Asian Development Bank
CMSE	–	cottage, micro, small enterprise
COVID-19	–	coronavirus disease
FMA	–	financial management assessment
GAP	–	gender action plan
MOF-FD	–	Ministry of Finance–Finance Division
PFI	–	participating financial institution
PMU	–	project management unit
PPMS	–	project performance management system
SOE	–	statement of expenditures
TA	–	technical assistance

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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 the policies and procedures of the government and Asian Development Bank (ADB). The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The Finance Division of the Ministry of Finance as the executing agency and Bangladesh Bank as the implementing agency, are wholly responsible for the implementation of ADB-financed projects, as agreed jointly between the borrower and ADB, and in accordance with the policies and procedures of the government and ADB. ADB staff is responsible for supporting implementation including compliance by Finance Division of the Ministry of Finance and Bangladesh Bank of 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. 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, 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.

I. PROJECT DESCRIPTION

1. The Supporting Post-COVID-19 Small-Scale Employment Creation Project composes of a financial intermediation loan of up to \$150 million from Asian Development Bank (ADB)'s ordinary capital resources to the Government of Bangladesh. The funds will be onlent to Bangladesh Bank, the nation's central bank, for on-lending to participating financial institutions (PFIs). The PFIs will further onlend the funds to cottage, micro, and small enterprises (CMSEs) started or operated by targeted vulnerable groups—unemployed youth, returning migrant workers, and rural entrepreneurs with a focus on women entrepreneurs. The attached transaction technical assistance (TA) amounting to \$900,000 will help strengthen the institutional capacity of Bangladesh Bank and PFIs and will promote formal banking support for CMSEs.

2. The impact of the project will be the rapid recovery from coronavirus disease (COVID-19) to restore employment, income, and economic activities. The outcome is adverse economic effects of COVID-19 on migrants, youth, and rural entrepreneurs mitigated. There are three outputs: (i) financial support to enterprises started or operated by migrants, rural enterprises, and youth from the formal banking sector increased; (ii) capacity of employment-supporting institutions strengthened; and (iii) action plan for promoting formal banking sector support for CMSEs developed.

II. IMPLEMENTATION PLANS

1. Project Readiness Activities

Table 1: Project Readiness Activities

Indicative Activities	2021							2022				Responsible Unit	
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr		
Financial 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
ADB Board approval					▲								ADB
Loan and project agreements signing						▲							ADB, MOF, Bangladesh Bank, PFIs
Government legal opinion provided						▲							MOF
Project management unit in Bangladesh Bank established						▲							Bangladesh Bank
ADB confirms acceptability of PFI's' use of the subproject								▲					PFIs

Indicative Activities	2021							2022				Responsible Unit
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
screening checklist												
Signing of the subsidiary loan agreements between MOF and Bangladesh Bank							▲					MOF, Bangladesh Bank
Loan effectiveness							▲					ADB
Onlending arrangements between Bangladesh Bank and PFIs are in place							▲	▲	▲			ADB, Bangladesh Bank, PFIs

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

Source: Asian Development Bank.

2. Overall Project Implementation Plan

3. The scheduled implementation period for the project is 3.5 years (January 2022–June 2025).

Table 2: Implementation Plan Key Activities with Milestones		2021				2022				2023				2024				2025			
		1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
1.	Financial support to enterprises started or operated by migrants, rural enterprises, and youth from the formal banking sector increased																				
1.1	Disburse \$40 million through Bangladesh Bank to PFIs by Q4 2022					■	■	■	■												
1.2	Disburse an additional \$50 million through BB to PFIs Q4 2023									■	■	■	■								
1.3	Disburse an additional \$50 million through BB to PFIs by Q4 2024													■	■	■	■				
1.4	Disburse an additional \$10 million through BB to PFIs by Q2 2025																	■	■		
2.	Capacity of employment-supporting institutions strengthened																				
2.1	Consultants support the PFIs and potential PFIs to enhance the financial inclusive strategies by Q4 2022					■	■	■	■												
2.2	Consultants support the PFIs and potential PFIs to enhance the policy frameworks by Q4 2022					■	■	■	■												
2.3	Consultants support the PFIs and potential PFIs to develop guidelines for credit department and various committees by Q4 2022					■	■	■	■												
2.4	PFIs take steps to improve underwriting standards to enhance quality of the loan portfolio by Q4 2023									■	■	■	■								
2.5	Consultants support the development of procurement plans for the MIS by Q2 2023									■	■	■	■								
2.6	Capacity building activities for PMU and PFI officials on underwriting standards, risk management, GESI mainstreaming and environmental and social safeguards by Q4 2023									■	■	■	■								
3.	Action plan for promoting formal banking sector support for cottage, micro and small enterprises developed																				
3.1	Action plan developed and discussed with Bangladesh Bank, the MOF, and related agencies by Q3 2023									■	■	■	■								
3.2	Training and knowledge event conducted for the PMU, PFIs, and stakeholders to promote best practices by Q3 2023									■	■	■	■								
3.3	Online platform developed to make training materials available to broader audiences by Q1 2023									■	■	■	■								
3.4	Outreach conducted, including online, to increase awareness of the program by Q1 2025													■	■	■	■	■	■		

GESI = gender equality and social inclusion, MIS = management information system, MOF = Ministry of Finance, PFI = participating financial institution, PMU = project management unit, Q = quarter, TA = technical assistance.

Source: Asian Development Bank.

III. PROJECT MANAGEMENT ARRANGEMENTS

1. Project Implementation Organizations: Roles and Responsibilities

1. Steering Committee

4. For the smooth implementation of the project within the framework of the CMSEs promotion policy of the Government of Bangladesh, the steering committee will be established at ministry level.

5. The Senior Secretary of Ministry of Finance–Finance Division (MOF-FD), or his representative, will be the Chairman of the Steering Committee. The members will be:

- (i) a representative from Bangladesh Bank;
- (ii) a representative from MOF-FD;
- (iii) a representative from Ministry of Finance-Financial Institutions Division;
- (iv) a representative from Ministry of Finance-Economics Relations Division; and
- (v) others who may be considered necessary by the government.

6. The role of the Secretariat will be performed by the project management unit (PMU) of Bangladesh Bank. ADB will participate as an observer.

7. The principal function of the steering committee is to discuss and make decisions on policy issues relevant to the implementation and management of the project, inter alia:

- (i) review, consider, and approve major policy changes of operating guidelines;
- (ii) supervision of the project;
- (iii) important issues related to the implementation of the project, policy formulation for CMSE development; and
- (iv) any other issues related to the smooth operation of the project.

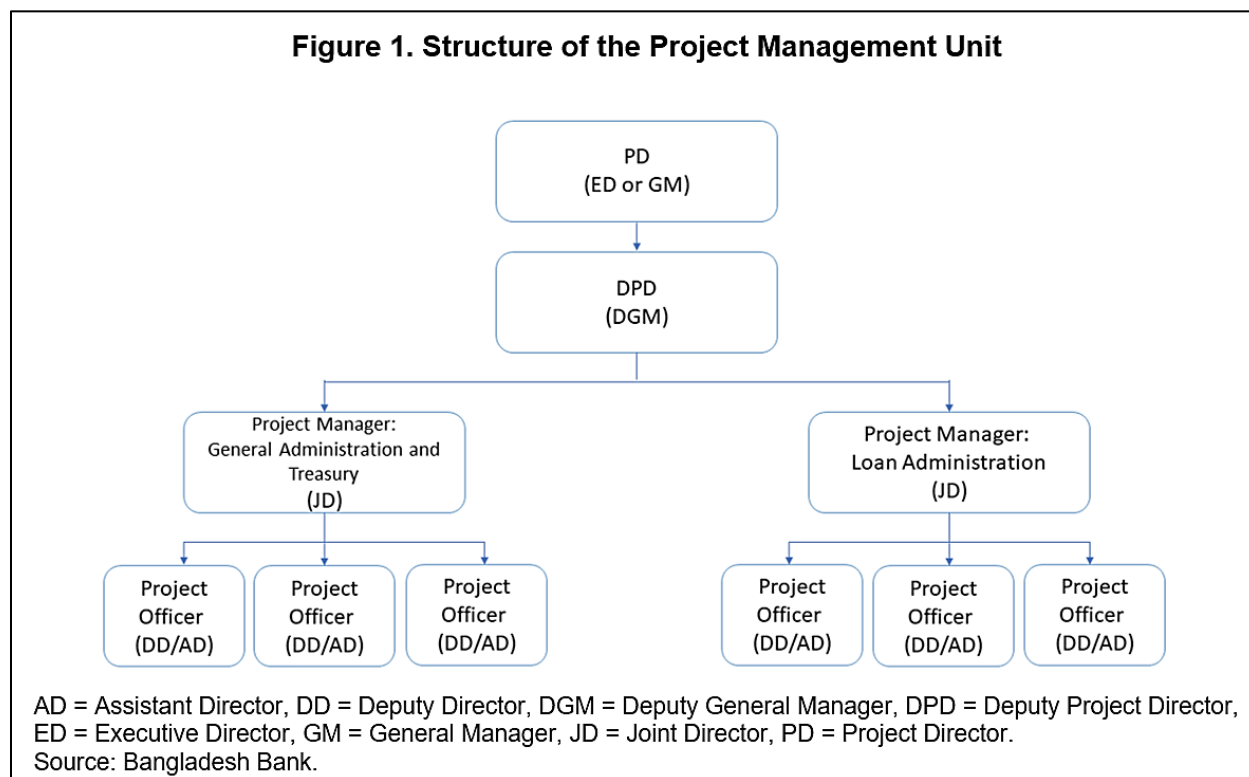
8. The steering committee will convene at least once every half year but can be held on an ad hoc basis if any issue arises to be discussed immediately.

2. Project Management Unit

9. To ensure a smooth implementation of the project intervention, a PMU will be established no later than 1 month after ADB Board approval, with a project director, a deputy project director, two project managers, and six project officers who will specifically handle all relevant tasks related to this project. Moreover, one receptionist and one member of lower staff service (outsourced) should be included in the PMU to facilitate the PMU activities.

10. The project director will be primarily responsible for the project implementation and shall mobilize any further staff resources necessary for the smooth implementation of the project through appropriate authority of Bangladesh Bank. All the project officials must be posted in the PMU on deputation and assigned full time for this project. Bangladesh Bank will assign one deputy general manager from the Small and Medium-sized Enterprise Development Project as deputy project director. The PMU will be staffed with officials who have prior knowledge on ADB project implementation and management from similar CMSE projects.

11. The structure of PMU will be as shown below in Figure 1.



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

- (i) General Administration and Treasury Section
 - (a) Coordination with Bangladesh Bank's other departments for general affairs;
 - (b) Provision of necessary administrative assistance for other sections of the PMU;
 - (c) Due maintenance of the advance account,¹ project operating account, and revolving fund account established for the loan administration;
 - (d) Instruction to the Accounts and Budgeting Department to transfer funds to be paid by PFI to the revolving fund account, Bangladesh Bank's revenue account, and Ministry of Finance's revenue account;
 - (e) Preparation of statements of the project accounts; and
 - (f) Full cooperation to external audit of the advance account, the project operating account, and the revolving fund account as well as to the external audit for statement of expenditures (SOEs).
- (ii) Loan Administration
 - (a) Conducting the accreditation of PFIs, including annual reviews;
 - (b) Concluding a participation agreement with PFIs;
 - (c) Review of subloans applications from PFIs;

¹ Advance account is equivalent to the terminology "imprest account" used in Bangladesh Bank and Finance Division of MOF.

- (d) Approval and disbursement of the funds to PFIs;
- (e) Recovery of subloans from PFIs as per recover schedule;
- (f) Daily monitoring of onlending loans and subloans; and
- (g) Preparation of quarterly progress reports and project completion report.

Table 3: Project Implementation Organizations: Roles and Responsibilities

Project Implementation Organizations	Management Roles and Responsibilities
Executing agency	<p><u>Ministry of Finance–Finance Division</u></p> <ul style="list-style-type: none"> • Responsible for the overall project implementation and provides project implementation guidance • Organize Steering Committee meetings • Liaise with ADB for any project implementation issues • Provide necessary implementation support to Bangladesh Bank • Sign the subsidiary agreement with Bangladesh Bank and monitor compliance
Project steering committee	<ul style="list-style-type: none"> • Provide overarching guidance and policy level support to the project • Monitor and review project performance at an inter-agency level and address key policy-related issues • Ensure collaboration and cooperation among agencies
Implementing agency	<p><u>Bangladesh Bank</u></p> <ul style="list-style-type: none"> • Assess PFI eligibility in coordination with ADB • Monitor PFIs' compliance with loan conditions and achievements of the project's design and monitoring framework targets • Timely submit withdrawal applications to ADB • Responsible for the allocation of the loan to the PFIs • Responsible for the administration of the advance account, submission of the withdrawal applications, retention of supporting documents, and any reporting requirements • Support the TA activities by providing timely support, guidance, inputs, access to information, and in-kind contributions • Implement the use of the subproject screening checklist by the PFIs and the Gender Action Plan • Submit to ADB quarterly progress reports within 30 days from the end of each quarter and respond to other information requests • Ensure PFIs' submission of statement of utilization of funds, and submit audited statement of utilization of funds on behalf of PFIs • Submit to ADB annual safeguards monitoring report • Monitor PFIs' compliance with project agreement covenants • Represent the project and participate in portfolio review meetings organized by the government and ADB • Submit a project completion report within 6 months of project closure
PFIs	<ul style="list-style-type: none"> • Assess credit worthiness of subborrowers and financial viability of subprojects • Implement and ensure compliance with the selection criteria for subborrowers, subproject, and subloans; and criteria for the maximum loan size, and covenants in project agreement • Ensure that total subloans (number) to small enterprises are issued to at least 20% women-led small enterprises under the credit line • Ensure that the qualified subborrowers comply with ADB's Safeguard Policy Statement and applicable environmental, health and safety, and social laws and regulations of the borrowers • Provide capacity building and business support activities to the targeted vulnerable groups and women's entrepreneurs on financial and legal literacy related to access to financial resources and services • Manage budgeting, financial planning, accounting, and auditing of project-related activities

	<ul style="list-style-type: none"> • Submit to Bangladesh Bank annual Statements of Utilization of Funds in ADB template, in compliance with financial covenants
ADB	<ul style="list-style-type: none"> • Responsible for overall coordination of the project • Provide guidance to Bangladesh Bank regarding implementation of the project • Monitor achievements of the project's targets established in the design and monitoring framework • Conduct field reviews on implementation twice a year • Oversee implementation of attached TA

ADB = Asian Development Bank, PFI = participating financial institution, TA = technical assistance.
Source: Asian Development Bank.

2. Key Persons Involved in Implementation

Executing Agency

Finance Division,
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Asian Development Bank

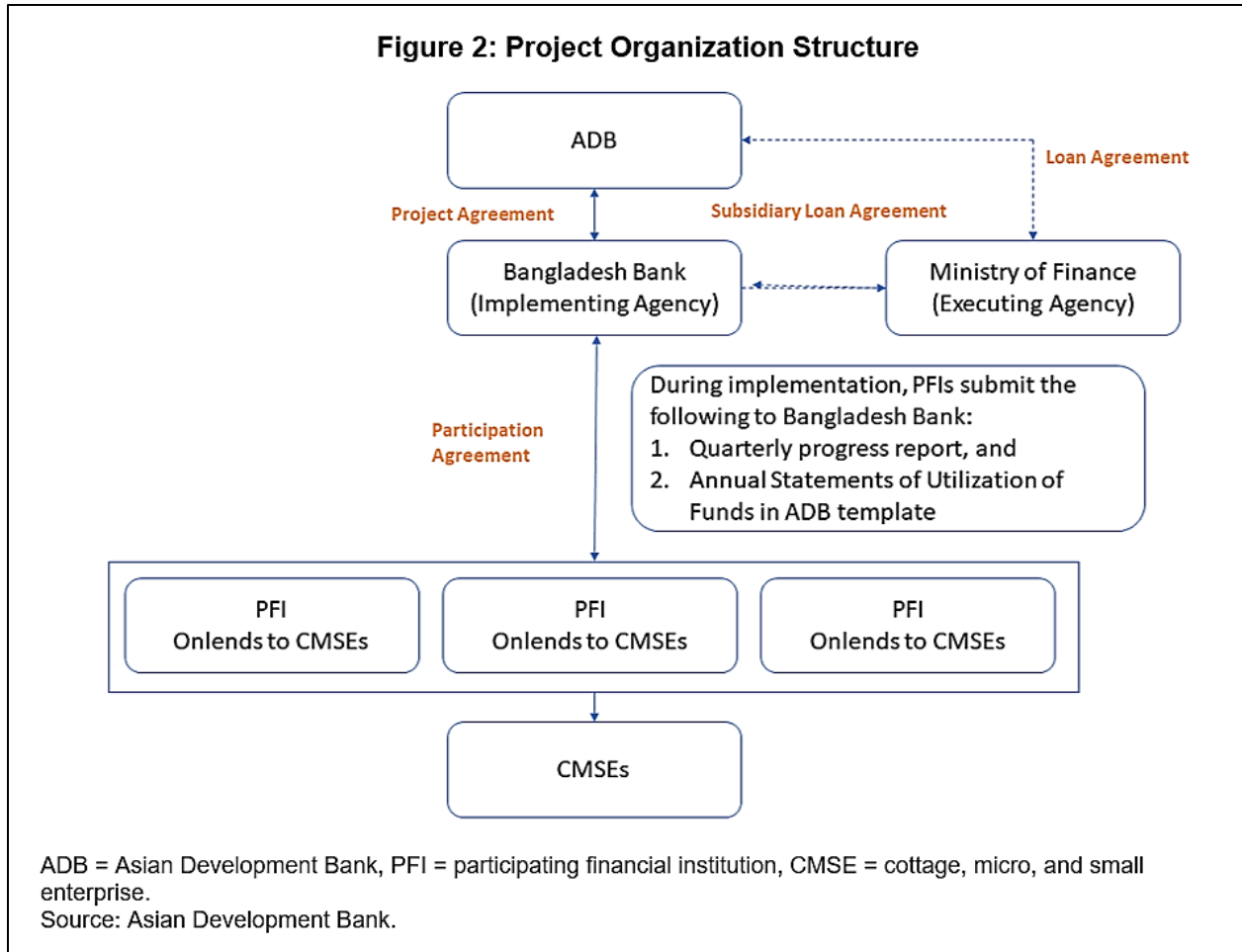
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3. Project Organization Structure



IV. COSTS AND FINANCING

13. The government has requested a concessional loan of \$150 million from ADB's ordinary capital resources to help finance the project. The loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2.0% per year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan and project agreements.

14. The government will relend the loan proceeds to Bangladesh Bank under a subsidiary loan agreement, denominated in local currency. The government will determine the relending rate and will bear the foreign exchange risk. Bangladesh Bank will onlend the funds to PFIs at an interest rate in line with the rates for other Bangladesh Bank programs supporting CMSMEs.² The loans from PFIs to eligible CMSEs will have a market-based lending rate that reflects the funding cost of the PFIs and the credit risk of the subborrowers that is determined by Bangladesh Bank and agreeable to ADB; and will have a maximum maturity of 5 years and a maximum loan size of Tk5.0 million.

² Bangladesh Bank's CMSME support programs have interest rates of 2%–4%.

Table 4. Project Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank (concessional loan)	150.0	100.0
TOTAL	150.0	100.0

^a This is based on the assumption that CMSEs will contribute 20% of individual subproject cost in form of equity.
Source: Asian Development Bank.

A. Cost Estimates Preparation and Revisions

15. The cost estimates were prepared by the Government of Bangladesh in consultation with ADB. No cost revision is expected during project implementation.

B. Detailed Cost Estimates by Expenditure Category

Table 5. Cost Estimates by Expenditure Category

Source	Amount (\$ million)	Share of Total (%)
Credit Line	150.0	100.0
TOTAL	150.0	100.0

Source: Asian Development Bank.

C. Allocation and Withdrawal of Loan Proceeds

16. **ADB loan (ADB to Bangladesh).** The government will be the borrower. The ADB loan, through the MOF–FD, will onlend to Bangladesh Bank in local currency under a subsidiary loan agreement. government will bear the foreign exchange risks.

17. **Relending (from Bangladesh Bank to participating financial institutions).** Bangladesh Bank will relend the proceeds of the ADB loan to eligible PFIs for making subloans to eligible subborrowers to finance eligible subprojects at prevailing rate for CMSE programs under a participation agreement.³ The relending will have a maturity of 2–5 years (generally matches the profiles of subloans) at an interest rate of prevailing bank lending rate determined by Bangladesh Bank and agreeable to ADB.

18. **Eligibility criteria of partner finance institutions.** PFIs participating in the project must be licensed by Bangladesh Bank or established under special act or regulation of the government. In addition, PFIs must meet the eligibility criteria laid out in Appendix 2.

19. **Eligibility criteria of borrowers.** Enterprises to be financed under the project shall belong to the three vulnerable groups—(i) youth, (ii) returning migrants, and (iii) rural entrepreneurs.⁴ These groups should meet the eligibility criteria laid out in Appendix 3.

20. **Loan proceeds utilization.** ADB loan proceeds will be used to finance eligible PFI's qualified CMSEs.⁵ Subloans will be for activities that will not trigger any involuntary resettlements

³ Eligibility criteria for participating financial institutions (PFIs), subprojects and subborrowers (accessible from the list of linked documents in Appendix 2.

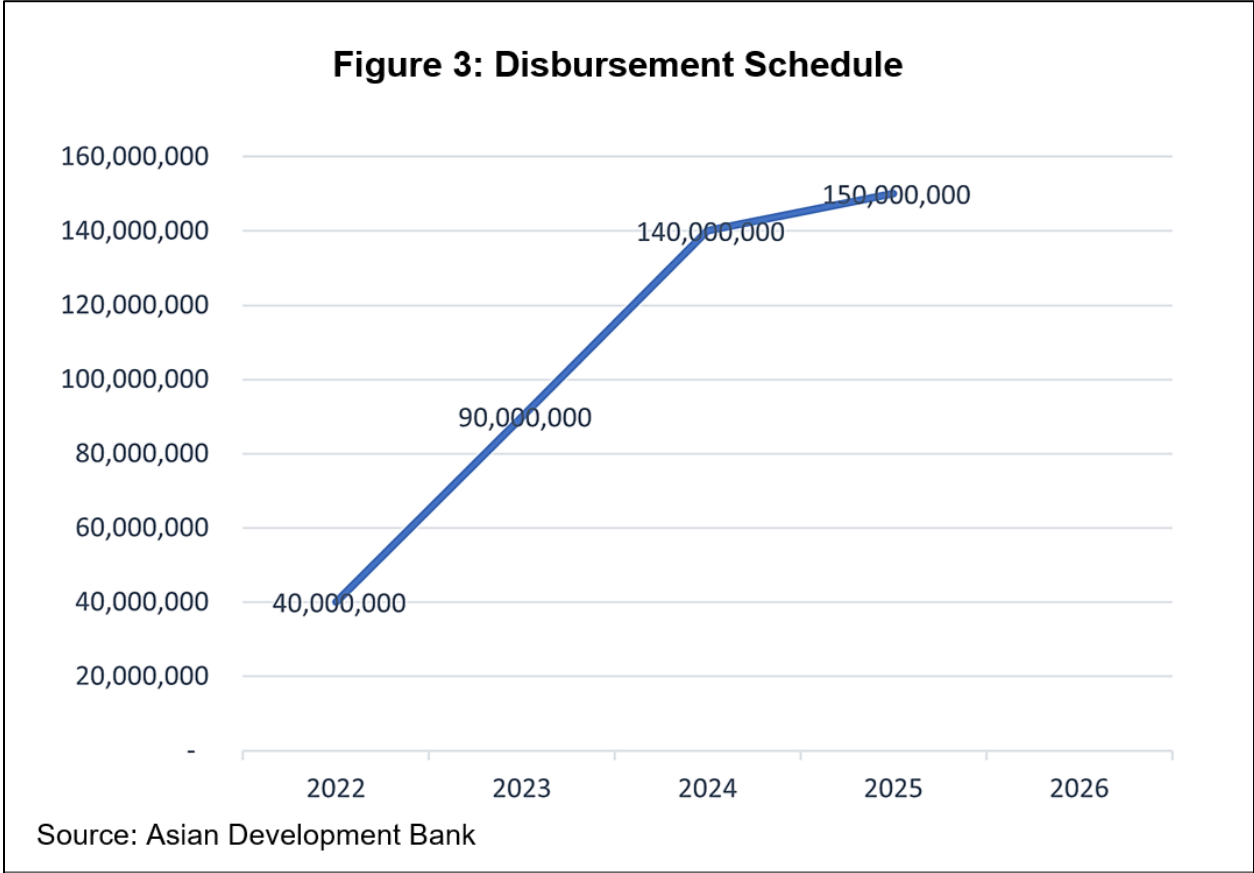
⁴ Youth refers to individual between 18 and 45 years old; returning migrants refers to individuals returned to the country since beginning of 2020; rural entrepreneurs refer to the entrepreneurs based outside of Dhaka and Chattogram metropolitan areas.

⁵ Rural enterprises in this paper refer to enterprises located outside of Dhaka and Chattogram metropolitan area.

nor have any adverse impact on tribes, minor races, ethnic sects, and communities. The maximum size for subloans under the credit line will be Tk5 million. The total cost of each subproject will be jointly financed with a subborrower equity contribution of 20%, and a contribution from the ADB loan of 80%. Subloans may be used for working capital or long-term investment and must be repaid with a maximum term of 5 years. Though the funds will prioritize cottage and micro enterprises, small enterprises outside of Dhaka and Chattagram metropolitan areas, may avail only up to \$40 million of the loan proceeds. Subloans will only be provided to finance activities not listed in ADB’s Prohibited Investment Activities List and will be subject to post-lending monitoring and review by ADB.

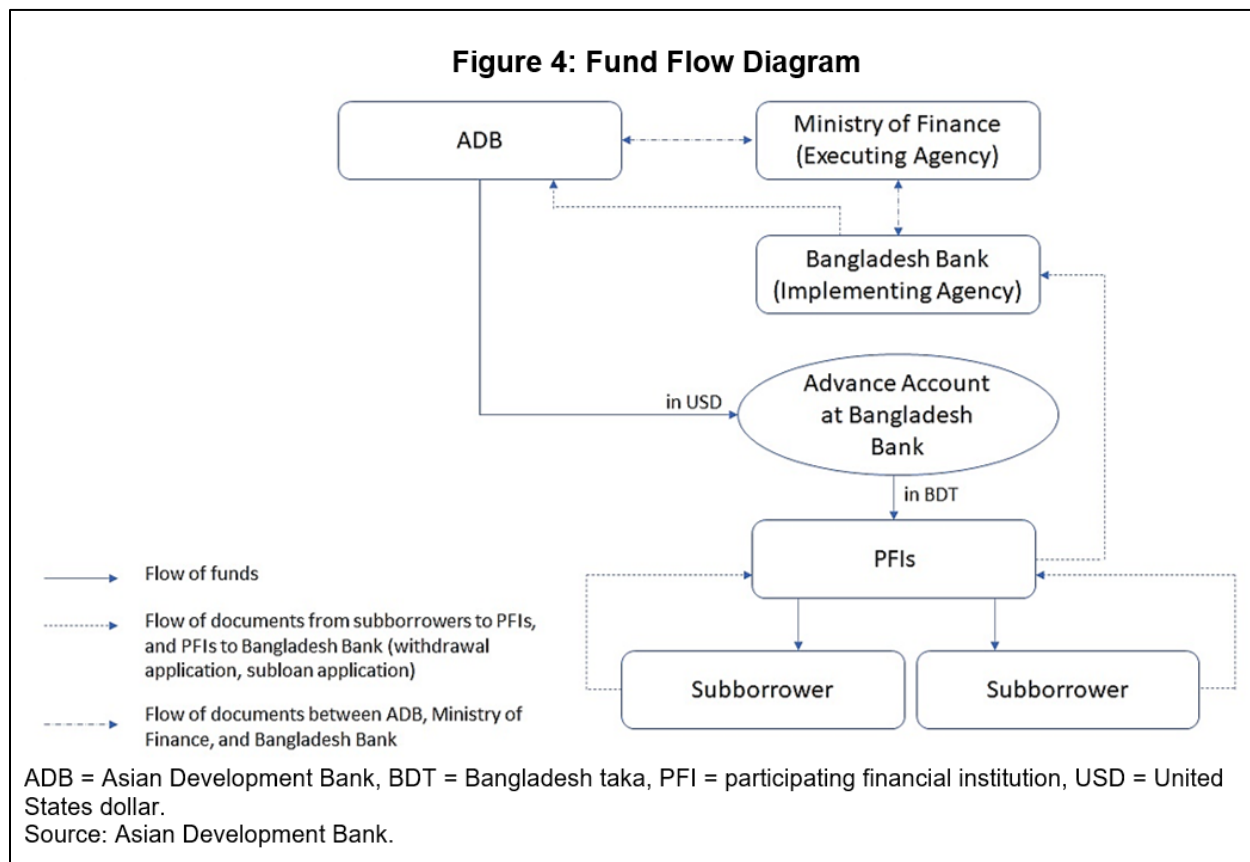
D. Disbursement S-Curve

21. The disbursement schedule for the project period of 2022–2025 is expected to be in annual amounts of \$40 million, \$50 million, \$50 million, and \$10 million.



E. Fund Flow Diagram

22. The disbursement will be conducted through advance account procedure.



V. FINANCIAL MANAGEMENT

1. Financial Management Assessment

23. The financial management assessment (FMA) was conducted in May 2021 in accordance with ADB's Guidelines on Financial Due Diligence.⁶ The FMA considered the capacity of the Bangladesh Bank, and Karmasangsthan Bank, a potential PFI, including fund-flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and internal and external auditing arrangements.

24. The executing agency for the project will be MOF-FD and Bangladesh Bank will be the implementing agency. MOF-FD is experienced with working with donor programs including ADB's. The FMA found that Bangladesh Bank has experience in implementing ADB-assisted projects, namely: (i) the Small and Medium-Sized Enterprise Development Project and (ii) Second

⁶ ADB. 2009. [Financial Due Diligence: A Methodology Note](#). Manila.

Small and Medium-Sized Enterprise Development Project.⁷ Bangladesh Bank's project management and financial management capacities were further enhanced under these ADB projects and projects from other development partners. Bangladesh Bank has adequate financial management capacity to (i) provide reliable annual statement of utilization of funds and audit reports in a timely manner; (ii) design and implement effective mechanism to monitor program implementation by PFIs; and (iii) manage the advance account and the SOE procedures under ADB's disbursement procedures. However, Bangladesh Bank still needs to further strengthen its capacity and staff to meet the challenges of supporting vulnerable groups, disbursing funds efficiently, and delivering policies and strategies for financial inclusion. The attached TA will support the capacity development of PMU officials, strengthen Bangladesh Bank's information technology system, provide business support for the borrowers, and support policy development.

25. The FMA concluded that the financial management risk is moderate, primarily due to risks coming from (i) increasing outstanding loan levels due to deterioration in macroeconomic conditions in the aftermath of COVID-19, and (ii) capacity constraints in some of the participating financial institutions. Mitigation factors considered are Bangladesh Bank's strong financial management capacity, conservative approach and experience working with ADB and many other development partners in similar projects.

26. The financial management internal control and risk assessment examines the proposed project on two levels—inherent and control risks. Inherent risks consider risks that are inherent to financial institutions in Bangladesh projects while control risks consider risks that are unique to Bangladesh Bank and the subprojects (Table 6).

Table 6: Financial Management Risk Assessment

Risk	Risk Assessment	Risk Rating	Risk-Mitigation Measures
Inherent Risks			
1. Country-specific Risks	The financial management systems of Bangladesh are reasonably well developed but there are issues related to inadequate policy budgeting, governance concerns and limited scrutiny of external audit reports.	S	Bangladesh has undertaken a number of initiatives to improve the quality of its financial management systems. Considering the global indicators, it is deemed essential to continue the effort of improving its performance as a key priority to achieve the country's development aspirations. The core financial management systems are targeted for improvement through strengthening of core public institutions.
2. Financial Sector Specific Risks	Poor financial management practices in the banking and nonbank financial sector could undermine the stability of the financial system.	M	Financial institutions play a vital role of intermediation and serve the diverse financial needs of the growing economy. The magnitude of their role underscores the importance of proper financial management in the financial sector. A number of initiatives have been taken by Bangladesh Bank to ensure good financial management with particular focus on the accountability and transparency of management in the financial sector. The legislative framework

⁷ ADB. 2009. [Report and Recommendation of the President to the Board of Directors: Proposed Loan to the People's Republic of Bangladesh for the Second Small and Medium-sized Enterprise Development Project](#). Manila. and ADB. 2015. [Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Technical Assistance Grant to the People's Republic of Bangladesh for the Second Small and Medium-sized Enterprise Development Project](#). Manila.

Risk	Risk Assessment	Risk Rating	Risk-Mitigation Measures
			<p>related to the financial industry has been revised with a view toward helping improve governance and strengthening discipline in the financial system. Automation of the financial sector was a major step for the central bank in ensuring financial discipline. Bangladesh Bank has introduced the Integrated Supervision System and the Foreign Exchange Monitoring Dashboard. In addition, the Integrated Export Monitoring System has put in place with the National Board of Revenue to intensify financial sector supervision.</p> <p>However, governance is an issue needing continuous scrutiny and is addressed regularly and whenever required.</p>
	Increasing outstanding loan levels due to coronavirus disease (COVID-19) pandemic.	S	Bangladesh Bank ensured ample liquidity to the banking sector, implemented temporary moratorium on payments and strengthened monitoring of the banking sector.
Overall Inherent Risk		S	
Control Risks			
1. Internal Controls	Although Bangladesh Bank's risk management systems have improved over the last few years, they are still evolving.	M	Bangladesh Bank issued various risk management guidelines (Credit/AML/ Foreign Exchange/IT/Environmental & Social) for all banks which are at implementation stage.
2. Funds Flow	Fund flows are transparent. Asian Development Bank (ADB) would disburse directly to Bangladesh Bank's account which would, in turn, disburse directly to the participating financing institutions' (PFIs') accounts.	L	For use of ADB's share of eligible expenditure, Bangladesh Bank will open a dollar advance account under terms and conditions acceptable to ADB. No specific concerns for funds flow were observed in previous ADB funded projects implemented by Bangladesh Bank.
3. Accounting and Financial Reporting	According to Financial Reporting Act 2015 all Public Interest Entity (PIE) should follow International Accounting Standards (IAS) and International Financial Reporting Standards (IFRS) for accounting and financial reporting. For existing projects, subprojects are required to report quarterly on contractual expenditures and provide annual audited financial reports.	M	Banks and PFI's are not fully complied with IAS/IFRS. A multi regulatory task force team is in formation stage to implement IAS/IFRS for Bangladesh Bank and PFIs. The accounting policies and procedures of the project will be governed by the existing Bangladesh Bank Accounting Policy. All project-related transactions—i.e., all sources (ADB and Government of Bangladesh and/or Bangladesh Bank)—will be accounted for separately by Bangladesh Bank following double-entry bookkeeping principles and on a cash basis. Project expenses will be recorded in similar manner that are using for other ADB funded project.
4. Internal Audit	Bangladesh Bank internal audit function followed risk based internal audit approach. The risk criteria based on operational risk, exposure and controls.	L	Bangladesh Bank has a relatively strong Internal Audit Department, which is fully independent of executive control. The Head of Internal Audit reports to the Board Audit Committee, which comprised four independent members and an adviser, who joins the meeting on call, as and when required. Bangladesh Bank's Internal Audit Department carries out audits of projects funded by development partners such as ADB, Japan

Risk	Risk Assessment	Risk Rating	Risk-Mitigation Measures
			International Cooperation Agency and the World Bank at least once in year.
5. External Audit	The external audit of Bangladesh Bank must be concluded within 6 months by independent audit firm in accordance with IAS/IFRS. Controller General of Accounts conduct annual audit of foreign aided projects. There is also project performance audit from Implementation Monitoring and Evaluation Division.	L	The Foreign Aided Projects Audit Directorate (FAPAD) of the Office of the Controller and Auditor General will conduct an audit of the project's annual financial statements within 6 months from the end of the fiscal year. The Project Director will be responsible for audit follow-up and for taking remedial actions. Meetings to resolve audit objections must be held within 3 months of the receipt of the external audit report from FAPAD. Recent audits have not identified any material concerns.
6. Staffing	In general, Bangladesh Bank has adequate and experienced staff with previous experience in ADB projects.	M	Bangladesh Bank shall ensure that the required financial management staff will be in place once the project becomes effective. In case of staff turnover, Bangladesh Bank will ensure placement of new staff from Bangladesh Bank so that financial management activities continue without interruption.
7. Management Information System (MIS)	Bangladesh Bank will be responsible for consolidating financial information, maintaining supporting papers, and preparing financial statements. The MIS Reports will include:(i) financial statements (sources and uses of funds, uses of funds by project activity, and the special account reconciliation statement); (ii) MIS reports will be submitted to ADB no later than 45 days after the end of each calendar quarter.	M	Bangladesh Bank will prepare the project's annual statement of utilization of funds electronically based on extracts of integrated information system (IIS) data. Bangladesh Bank needs to develop MIS system to capture project information and generate reports that are required to be submitted to ADB during the project.
8. Capacity of PFIs	Limited financial management capacity of PFIs.	S	Karmasangsthan Bank (KB), the expected PFI under this project is a specialized bank. Capacity needs to be developed specially for ALM and ESMS areas to manage credit program of this project efficiently, as well as implementation of core banking system and hiring of staff at vacant positions. KB is not familiar with the developing partners reporting framework. Extensive training will be required to develop financial management capacity of KB.
Overall Control Risk		M	
Overall Risk		M	

27. Bangladesh Bank has agreed to implement an action plan as key measures to address the deficiencies. The financial management action plan is provided in Table 7.

Table 7: Financial Management Action Plan for Bangladesh Bank

Risk Area	Agreed Actions	Responsibility	Agreed Timeline
Training of Bangladesh Bank (Bangladesh Bank) and participating financial institution (PFI)	Provide training to Bangladesh Bank project finance and accounting staff in ADB disbursement and accounting policies and procedures	ADB	Within 6 months of loan effectiveness

Risk Area	Agreed Actions	Responsibility	Agreed Timeline
staff on Asian Development Bank (ADB) financial management requirements			
Financial reporting	Timely submission of audited statement of utilization of funds and resolution of audit findings to be ensured.	Bangladesh Bank	Within 6 months after fiscal year end.
Quarterly progress reports	Submission of quarterly progress reports with financial progress and disbursement reports to ADB	Bangladesh Bank	Within 45 days of end of each quarter
Monitoring of PFIs	Bangladesh Bank should follow eligibility criteria for PFIs throughout the project life. Bangladesh Bank should require PFIs to follow loan provisioning requirements against the outstanding loan amounts.	Bangladesh Bank/PFIs	Throughout project lifecycle
Information systems	Active use of both ADB systems Loan Financial Information and Services and Client Portal for Disbursements to reconcile project accounts and ADB disbursement records and keep track of advances, replenishments, and liquidations to the advance account on a quarterly basis.	Bangladesh Bank/PFIs	By loan effectiveness of the project and continue throughout project life.

Sources: Asian Development Bank and Bangladesh Bank.

28. Financial performance assessment was conducted for the four potential PFIs. Three of those—BRAC Bank, IDLC Finance Limited, and Bank Asia were the PFIs in ADB programs including the Small and Medium-Sized Enterprise Development Project and Second Small and Medium-Sized Enterprise Development Project; and have solid record in executing these programs. Institutional assessment of PFIs will be carried out by Bangladesh Bank before formal selection to ensure that the PFIs have capacity to account, report, and audit these funds.

29. Karmasangsthan Bank is the only PFI that (i) has not participated in any ADB program and (ii) is a non-scheduled bank. Despite of its good operational and financial performance and its leading role in supporting financial inclusion, the FMA has revealed certain areas of improvement and Karmasangsthan Bank has agreed take needed steps to strengthen its financial management.

Table 8: Financial Management Action Plan for Karmasangsthan Bank

Risk Area	Agreed Actions	Responsibility	Agreed Timeline
Implementation of core banking system	Implementation of CBS in all branches of KB with live data entries and processing. Integration of accounting software with its core banking system and update of accounting manual.	KB	December 2022
Risk management policies and procedures	Develop, obtain Board/Bangladesh Bank approvals, and implement the following policies and procedures: <ul style="list-style-type: none"> • Anti-Money Laundering Policy • Environmental and Social Risk Management Policy • Investment Policy 	KB	July 2021

Enhancements in internal audit function	Change of reporting line of head of internal audit to deputy managing director and audit committee. Update of internal audit manual.	KB	March 2022
Implementation of IT policy	Ensure full implementation of IT policy approved by the board in June 2020.	KB	March 2022
Staff recruitment and training	KB shall expedite recruitment process to fulfill the requirement that was designed in organogram. Following steps will be undertaken: <ul style="list-style-type: none"> • Complete hiring of 200 officers • Recruit professional accountant (CA/CMA/CPA) in GM finance position 	KB	31 December 2022
Business plan	Develop comprehensive business plan and obtain approval of the Board/MOF	KB	June 2022
Project financial reporting requirements	Submit annual audited statement of utilization of funds to Bangladesh Bank. Submit annual audited financial statements of KB to Bangladesh Bank. Submit quarterly progress reports to Bangladesh Bank on the agreed format.	KB	Within 6 months of end of each FY Within 1 month of approval Within 45 days of end of each quarter

CA = Chartered Accountant, CBS = core banking solutions, CMA = Certified Management Accountant, CPA = Certified Public Accountant, FY = fiscal year, GM = General Manager, IT = information technology, KB = Karmasangsthan Bank, MOF = Ministry of Finance

Sources: Asian Development Bank, Bangladesh Bank, and Karmasangsthan Bank.

2. Disbursement

1. Disbursement Arrangements for ADB Funds

30. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time),⁸ and detailed arrangements agreed upon between the government and ADB. Bangladesh Bank is responsible for collecting and retaining all relevant documentation and preparing and submission of withdrawal application to ADB.

31. **Advance fund procedure.** Separate advance account should be established and maintained by Bangladesh Bank for ADB funds. The currency of the advance account is the US dollar. The advance account is to be used exclusively for ADB's share of eligible expenditures. Bangladesh Bank, who administers the advance account is accountable and responsible for proper use of advances to the advance account.

32. The total outstanding advance to the advance account should not exceed the estimate of ADB's share of expenditures to be paid through the advance account for the forthcoming 6 months. Bangladesh Bank may request for initial and additional advances to the advance account based on an Estimate of Expenditure Sheet⁹ setting out the estimated expenditures to be financed through the account(s) for the forthcoming 6 months. Supporting documents should be submitted to ADB or retained by Bangladesh Bank in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time) when liquidating or replenishing the advance account.

⁸ ADB. 2017. *Loan Disbursement Handbook 2017*. Manila.

⁹ Estimate of Expenditure sheet is available in Appendix 8A of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

33. **Statement of expenditure procedure.**¹⁰ The SOE procedure may be used for reimbursement of eligible expenditures or liquidation of advances to the advance account. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

34. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of the government, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is stipulated in the *Loan Disbursement Handbook* (2017, as amended from time to time). Individual payments below such amount should be paid (i) by Bangladesh Bank and subsequently claimed to ADB through reimbursement, or (ii) through the advance fund procedure, unless otherwise accepted by ADB. The borrower should ensure sufficient loan demands before requesting disbursements. Use of ADB's Client Portal for Disbursements system is required for submission of withdrawal applications to ADB.¹¹

35. The funds repaid by the PFIs will be onlent again to the eligible PFIs following the same process and requirements during the project implementation period. After the end of the project period, the fund will be utilized by Bangladesh Bank for future lending to the cottage, micro and small enterprises according to the terms and conditions laid down in the Subsidiary Loan Agreement. A special revolving funds account will be established for this purpose within Bangladesh Bank.

3. Accounting

36. Bangladesh Bank will maintain, or cause to be maintained, separate books and records by funding source for all expenditures incurred on the project following accounting and financial management procedures acceptable to ADB.

37. The PFIs will also maintain separate books and accounts relating to all subloans financed out of ADB's loan proceeds relating to this project. The statement of utilization of funds will be prepared using appropriate accounting principles and reporting framework.

38. Based on the statement of utilization of funds by each PFI, Bangladesh Bank shall prepare a consolidated set of project financial statements, i.e., a consolidated statement of utilization of funds for all PFIs, indicating the consolidated sources and uses of funds under the project.

4. Auditing and Public Disclosure

39. MOF-FD and Bangladesh Bank will cause the detailed consolidated statement of utilization of the funds, to be audited in accordance with international standards on auditing and with the Government's audit regulations by Foreign Aided Projects Audit Directorate (FAPAD). The audited consolidated statement of utilization of funds, together with the auditor's opinion will be presented in the English language to ADB within 6 months from the end of the fiscal year by

¹⁰ SOE forms are available in Appendix 7B and 7D of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

¹¹ The CPD facilitates online submission of WA to ADB, resulting in faster disbursement. The forms to be completed by the Borrower are available online at <https://www.adb.org/documents/client-portal-disbursements-guide>

Bangladesh Bank.

40. Bangladesh Bank and each of the PFI shall (i) maintain, separate accounts and records for the Project; (ii) prepare an annual statement of utilization of funds (indicating sources of funds and disbursements to PFIs/MSMEs) in accordance with accounting principles acceptable to ADB; (iii) have the statements referred to in subsection (iv) audited annually by Foreign Aided Projects Audit Directorate (FAPAD); (v) as part of each such audit, the respective auditors will prepare a report, which includes the auditors' opinions on the statements referred to in subsection and the use of the Loan proceeds, and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any); and (vi) furnish to ADB, no later than 6 months after the close of the fiscal year to which they relate, copies of such audited statements, audit reports and management letters, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request. Bangladesh Bank shall ensure that the PFIs address in a timely manner key audit issues raised by the auditors as part of the audits carried out on their annual statements of utilization of funds, and Bangladesh Bank shall inform ADB on a quarterly basis on the progress being made by PFIs in addressing such audit issues.

41. Bangladesh Bank will also cause its 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. The audited entity-level financial statements, together with the auditors' report and management letter, will be submitted in the English language to ADB within 1 month after their approval by the competent authority.

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

43. The government, MOF-FD, and Bangladesh Bank have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited financial statements.¹² ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the borrower), 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.

44. Public disclosure of the consolidated statement of utilization of funds, including the auditor's opinion, will be guided by ADB's Access to Information Policy (2018).¹³ After the review,

¹² ADB's approach and procedures regarding delayed submission of audited statement of utilization of funds and entity-level financial statements:

- (i) When these documents are not received by the due date, ADB will write to the executing agency advising that (a) the audit documents are overdue; and (b) if they are not received within the next 6 months, requests for new contract awards and disbursement such as new replenishment of advance accounts, processing of new reimbursement, and issuance of new commitment letters will not be processed.
- (ii) When these documents are not received within 6 months after the due date, ADB will withhold processing of requests for new contract awards and disbursement such as new replenishment of advance accounts, processing of new reimbursement, and issuance of new commitment letters. ADB will (a) inform the executing agency 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.
- (iii) When these documents are not received within 12 months after the due date, ADB may suspend the loan.

¹³ ADB. 2018. [Access to Information Policy](#). Manila.

ADB will disclose these no later than 14 days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter, additional auditor's opinions, and audited entity financial statements will not be disclosed.¹⁴

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting and Retroactive Financing

45. There will be no advance contracting nor retroactive financing under the project.

B. Procurement of Goods, Works, and Consulting Services

46. Procurement and consulting services to be financed by the proposed attached TA by following ADB Procurement Policy (2017, as amended from time to time) and Procurement Regulations for ADB Borrowers (2017, as amended from time to time).

47. The attached TA of \$900,000 from ADB's Corporate Pool for COVID-19 will help Bangladesh Bank to strengthen the banking sector's support for employment creation. The TA will also aim to strengthen PFIs and potential PFIs that are important for supporting employment creation, through institutional capacity development and promotion of best practices in CMSE banking. The TA will require a total of 10 person-months inputs from 2 international experts and 58 person-months inputs from 9 national experts. ADB will recruit a firm for two international consultants and nine national consultants using the quality- and cost-based selection method with a quality-cost ratio of 90:10 because of the highly-specialized expertise needed. The terms of reference for the consultants are in Appendix 2 of the TA.

VII. SAFEGUARDS

48. In accordance with ADB Safeguards Policy Statement (2009), the project is classified as FI treated as C for impacts on the environment, involuntary resettlement, and indigenous peoples. The project is expected to have minimal environmental impact as the subloans to CMSEs will be mainly for light manufacturing, trade, and service sectors. Similarly, the subloans will be for activities that will not trigger any involuntary resettlements nor have any adverse impact on indigenous people.

49. To ensure that all subloans are compliant with ADB requirements, Bangladesh Bank has developed screening checklists for environmental, involuntary resettlement and indigenous people impact, which will be used by PFIs to screen each subloan. Bangladesh Bank will conduct review and confirmation of these documents and provide monitoring, annual reporting, and grievance redressing mechanisms. ADB will ensure that the subproject screening checklist is operational in accordance with ADB requirements before any disbursement of funds from the ADB loan account is made. To ensure that subprojects are properly screened and categorized, ADB through a TA, will provide capacity building workshops to PFI staff. Each PFI will be required to designate at least one staff member to be responsible for implementation of its subproject screening checklist.

50. ADB shall review and monitor compliance with the environmental and social safeguard requirements of the project. In relation to this, Bangladesh Bank will assign a staff who will be

¹⁴ This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2011. *Public Communications Policy*. Paragraph 97(iv) and/or 97(v).

trained to develop and monitor the subproject screening mechanism and checklist to ensure that ADB's safeguard requirements will be adhered to. The assigned staff from Bangladesh Bank will, in turn, train staff from each of the PFIs in implementing and monitoring the screening mechanism through the screening checklist. Each PFI will provide its status of compliance with ADB's safeguard requirements through an annual monitoring report, which Bangladesh Bank will compile to provide to ADB.

51. **Prohibited investment activities.** Pursuant to ADB's Safeguard Policy Statement (2009), ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the Safeguard Policy Statement (2009). All financial institutions will ensure that their investments are in compliance with applicable national laws and regulations and will apply the prohibited investment activities list (Appendix 5) to subprojects financed by ADB.

VIII. GENDER AND SOCIAL DIMENSIONS

52. 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. The program addresses women's empowerment by narrowing gender disparities through access to financial resources and opportunities. The project targets a minimum of 20% for women entrepreneurs which will promote qualified women entrepreneurs by ensuring access to finance. Furthermore, the associated TA subproject will build women entrepreneurs' capacity to access finance resources.

53. A gender action plan (GAP) for this project has been developed (Table 8). Its implementation will be monitored regularly and ADB will receive an update on the GAP implementation at least semiannually. A gender specialist (8 person-months, intermittent) will be engaged to support the implementation and monitoring and reporting on the GAP.

Table 8: Gender Action Plan

Activities	Indicators & Targets	Responsibility	Time
Output 1: Financial support to enterprises started or operated by migrants, rural enterprises, and youth from the formal banking sector increased.			
1.1 Support 30,000 returning migrants, unemployed youth, and rural micro enterprise owners with financing	1.1.1 20% women supported with financing (June 2020 baseline: 500)	Bangladesh Bank	By June 2025
1.2 Enhance financial utilization skills of returning migrants, unemployed youth, and rural micro enterprise owners	1.2.1 Needs assessment conducted covering present job market and skills for both local and foreign employment opportunities for identified groups.	TA Consultants	By June 2025
	1.2.2 20% women who received financial support reported to have increased entrepreneurial skills.	TA Consultants	By June 2025
Output 2: Capacity of employment-supporting financial institutions strengthened.			
2.1 Support at least two financial institutions in the enhancement of policy framework, and risk	2.1.1 Gender-responsive corporate strategy to support targeted (unemployed youth, returning migrants, and rural	Bangladesh Bank, TA Consultants	By December 2023

Activities	Indicators & Targets	Responsibility	Time
management area (including gender responsive corporate strategy, credit guidelines, risk management, and anti-money laundering policies).	entrepreneurs) population with gender action plan developed and submitted to Bangladesh Bank board ^a 2.1.2 Incorporate gender-responsive features in credit guidelines and risk management policies ^b		
2.2 Raise awareness in best practices in supporting cottage, micro enterprises for at least 100 staff of PFIs enterprises	2.2.1 40% women staff report increased knowledge on best practices in supporting cottage, micro enterprises.	Bangladesh Bank, TA Consultants	By June 2025
2.3 Build the capacity of the implementing agency on governance, risk management and financial management capacities.	2.3.1 At least 80% of all available and relevant women staff of two PFIs received capacity building training on governance, risk management, and financial management capacities	Bangladesh Bank, TA Consultants	By June 2025
Output 3: Action plan for promoting formal banking sector support for cottage, micro, and small enterprises developed.			
3.1 Develop a gender-responsive action plan for enhancing access to finance through banking sector.	3.1.1 A gender-responsive action plan (with enhanced credit guarantee schemes to broaden and strengthen reach to women micro entrepreneurs) developed and submitted to Bangladesh Bank for approval. ^c	Bangladesh Bank/ADB	By December 2024
3.2 Enhance knowledge on accessing financial services for at least 400 returning migrants	3.2.1 At least 150 women report increased knowledge	Bangladesh Bank/ADB/PFI	By December 2024
3.3 Establish an internet-based training platform for small enterprises	3.3.1. A user-friendly internet-based training platform developed with sex-disaggregated information	Bangladesh Bank/ADB	By December 2024
3.4 Provide incubation services to women entrepreneurs.	3.4.1 At least 200 women micro entrepreneurs supported	Bangladesh Bank/ADB	By December 2024

PFI = participating financial institution, TA = technical assistance.

^a Includes but is not limited to (i) assessment of barriers in banking to ensure women's rights to financial services and ensure that banks are financing sectors where the majority of women work; (ii) review of financial products to identify appropriate products that economically empower women; (iii) review and establish sex-disaggregated management information system for evaluation of financial services for women; and (iv) document select innovations in processes, mechanisms, and products for vulnerability reduction (e.g. pensions and insurance) and for women's economic empowerment.

^b Includes but is not limited to guidelines that consider women's specific needs for loans and lack of collateral and has affirmative actions to ensure women receive loans. Risk management policies will be gender-responsive through assessments to ensure women's specific risks are accounted for.

^c This plan will include activities to remove barriers in banking to ensure women's access to financial services and ensure that banks are financing sectors and providing financial products where the majority of women work. It will also include specific interventions to establish sex-disaggregated management information system for evaluation of

financial services for women; and document select innovations in processes, mechanisms, and products for vulnerability reduction (e.g., pensions, insurance) and for women's economic empowerment.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION

A. Project Design and Monitoring Framework

Impact(s) the Project is Aligned with			
Rapid recovery from COVID-19 to restore employment, income and economic activities (Eighth Five-Year Plan, July 2020–June 2025) ^a			
Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
Outcome			
Adverse economic effects of COVID-19 on migrants, youth, and rural entrepreneurs mitigated	By December 2025, at least 45,000 employment opportunities created among the beneficiaries of the program. (2020 baseline: 0)	Business registry or project report using sample-based survey	R: Further economic downturn beyond projected levels exacerbates effective operations of banks and/or operations of the beneficiaries.
Outputs			
1. Financial support to enterprises started or operated by migrants, rural enterprises, and youth for self-employment from the formal banking sector increased	1a. By June 2025, \$150 million credit line to PFIs to expand financing to unemployed youth, returning migrants, and rural entrepreneurs provided (2020 baseline:0) 1b. By June 2025, 30,000 returning migrants, unemployed youth, and rural micro and small business owners (20% women) supported with financing (June 2020 baseline: 8.4%)	1a-1b. Executing agency report, project periodical monitoring report, bank's annual report.	A: Banks' capacity to meet the demand for managing the increased lending volume remains adequate.
2. Capacity of employment-supporting financial institutions strengthened	2a. By December 2023, at least two financial institutions are supported in enhancing their gender-responsive corporate strategy, credit guidelines, risk management, and anti-money laundering policies. (2021 baseline: 0) 2b. By December 2023, at least 100 PFI staff (40% female) have increased awareness of best practices in supporting cottage, micro, and enterprises. (2021 baseline: 0)	2a.–2b. TA reports, executing agency final report, bank letter confirmation of the policy actions taken	
3. Action plan for promoting formal banking sector support for cottage,	3a. By December 2024, a gender-responsive action plan for enhancing access to finance through the banking sector	3a-3d. TA reports and final report	

Results Chain	Performance Indicators	Data Sources and Reporting Mechanisms	Risks and Critical Assumptions
micro, and small enterprises developed	developed by Bangladesh Bank (2021 baseline: not developed) 3b. By December 2024, at least 400 returning migrants (including at least 150 women) with increased knowledge in accessing financial services. (2021 baseline: 0)		
	3c. By December 2023, internet-based training platform for cottage, micro, and small enterprises is established (2021 baseline: not applicable)		
	3d. By December 2024, at least 200 women entrepreneurs are supported by incubation services (2021 baseline: 0)		

Key Activities with Milestones

1. Financial support to enterprises started or operated by migrants, rural enterprises, and youth from the formal banking sector increased.

- 1.1 Disburse \$40 million through Bangladesh Bank to PFIs by Q4 2022
- 1.2 Disburse an additional \$50 million by Q4 2023
- 1.3 Disburse an additional \$50 million by Q4 2024
- 1.4 Disburse additional \$10 million by Q2 2025

2. Capacity of employment-supporting financial institutions strengthened.

- 2.1 Consultants support the PFIs and prospective PFIs to enhance the financial inclusive strategies by Q4 2022
- 2.2 Consultants support the PFIs and prospective PFIs to enhance the policy frameworks by Q4 2022
- 2.3 Consultants support the PFIs and prospective PFIs to develop guidelines for credit department and various committees by Q4 2022
- 2.4 PFIs take steps to improve underwriting standard to improve quality of the loan portfolio by Q4 2023
- 2.5 Consultants support the development of procurement plan for the MIS by Q2 2023
- 2.6 Capacity building activities for PMU and PFI officials on underwriting standards, risk management, GESI mainstreaming and environmental and social safeguards by Q4 2023

3. Action plan for promoting formal banking sector support for cottage, micro and small enterprises developed

- 3.1 Action plan developed and discussed with Bangladesh Bank, the MOF, and related agencies by Q3 2023.
- 3.2 Training and knowledge event conducted for PMU, PFIs, and stakeholders to promote best practices by Q3 2023.
- 3.3 Online platform developed to make training materials available to broader audiences by Q1 2023.
- 3.4 Outreach conducted, including online, to increase awareness of the program by Q1 2025.

Project Management Activities

Conduct regular project review missions in coordination with ADB's Bangladesh Resident Mission.
Monitor banks' financial and operational reports and consultant reports.
Conduct a survey of the project outcome.

Inputs

ADB: \$150 million (loan)
Technical Assistance Special Fund—other sources: \$900,000 (TA)

A = assumption, ADB = Asian Development Bank, COVID-19 = coronavirus disease, GESI = gender equity and social inclusion, MIS = management information system, MOF = Ministry of Finance, OP = operational priority, PFI = participating financial institution, Q = quarter, R = risk, TA = technical assistance.

^a Government of the People's Republic of Bangladesh, Bangladesh Planning Commission. 2020. [Eighth Five-Year Plan, July 2020–June 2025: Promoting Prosperity and Fostering Inclusiveness](#). Dhaka.

B. Monitoring

54. **Project performance monitoring.** To ensure that the project is efficiently managed and its benefits are maximized, Bangladesh Bank will ensure that a project performance management system (PPMS) satisfactory to ADB is established and implemented. The key performance indicators and assumptions in the design and monitoring framework will be the basis for the system. Bangladesh Bank will have established the baseline for each of these indicators, and such information will be made available to review missions and to the Government for future impact assessment surveys. The scope of the system, quantity and quality of data, and frequency of collection will be guided by the need for feedback on implementation. Bangladesh Bank 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 result under each project component, including key impact and outcome indicators and associated assumptions with corresponding target dates. PPMS activities will be conducted periodically to gather information from multiple sources to determine whether the input deliveries for implementing project activities have rendered expected benefits to the intended beneficiaries. The PPMS will aim to detect any deficiencies and discrepancies between the plan and the execution of the project in using the resources efficiently so that timely corrections can be made to adjust the design of the project and thus improve its benefits, outcomes, and impact. The PFIs will undertake periodic subproject performance reviews to evaluate the scope, implementation arrangement, and progress and achievements of objectives of the project.

55. **Compliance monitoring.** PFIs' compliance with the covenants will be monitored by Bangladesh Bank based on the PFIs' monthly reports, annual financial statements, and audited project account. PFIs will be required to prepare and submit an annual report to Bangladesh Bank to confirm compliance with the stated requirements.

56. **Safeguards monitoring.** Bangladesh Bank will monitor the screening process carried out by the PFIs as part of the fund application process. ADB will receive annual reports on safeguard compliances.

57. **Gender and social dimensions monitoring.** GAP implementation status will be reported semiannually. PFIs' monthly report will have data pertaining to the social status and will be sex disaggregated.

C. Evaluation

58. To ensure responsive and timely implementation, there will be regular review missions in accordance with the project implementation schedule. There will be regular interaction between the executing agency, Bangladesh Bank, and ADB. Annual performance review will be conducted by the government, Bangladesh Bank, and ADB. In addition, a comprehensive midterm review will be undertaken by the government, Bangladesh Bank, and ADB about 24 months after the project's effectiveness 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.

59. Within 6 months after the loan closing date, the MOF-FD and Bangladesh Bank will submit a project completion report to ADB in a form acceptable to ADB. Subsequently, ADB will field a mission to finalize the project completion report.

D. Reporting

60. Bangladesh Bank will provide ADB with (i) quarterly progress reports in a format consistent with ADB's project performance reporting system; (ii) consolidated annual reports including (a) progress achieved by output as measured through the indicator's performance targets, (b) key implementation issues and solutions, (c) updated procurement plan, and (d) updated implementation plan for the next 12 months; and (iii) a project completion report within 6 months of physical completion of the project. To ensure that projects will continue to be both viable and sustainable, project accounts and the executing agency audited financial statement together with the associated auditor's report, should be adequately reviewed.

E. Stakeholder Communication Strategy

61. 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 (MOF-FD and Bangladesh Bank) through written documents and official meetings, including SC meetings. Subborrowers would provide information at the time of subloan application and would have personal follow-up interactions with the PFIs. PFIs would communicate with Bangladesh Bank on the status of financial intermediary loans through submission of quarterly progress reports to the PMU at Bangladesh Bank, who, in turn, will forward the same to ADB. PFIs will also communicate to their staff through training programs, sensitization programs, and workshops to subborrowers through public campaigns. Internet based outreach and training will be piloted in this program.

62. The key communication objectives of the project are:

- (i) to inform potential and existing entrepreneurs and in particular women entrepreneurs of the opportunities that the project offers including capacity building activities and increased access to credit resources;
- (ii) to empower potential borrowers and women entrepreneurs and encourage them to enter into business ventures;
- (iii) to gather feedbacks on the project implementation and identify areas of improvement;
- (iv) to strengthen official network for cottage, micro and small enterprises and create a learning environment through sharing of experiences among the PFIs; and
- (v) to create public support for the project.

X. ANTICORRUPTION POLICY

63. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.¹⁵ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project 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.¹⁶

64. To support these efforts, relevant provisions are included in the loan agreement of the project.

¹⁵ Anticorruption Policy: <https://www.adb.org/documents/anticorruption-policy>.

¹⁶ ADB's Office of Anticorruption and Integrity website: <https://www.adb.org/integrity>.

65. ADB's Office of Anticorruption and Integrity is the point of contact to report allegations of fraud and corruption among ADB-financed projects or its staff.¹⁷ 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 or anticorruption@adb.org

XI. ACCOUNTABILITY MECHANISM

66. People who are, or may in the future be, adversely affected by the project 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 an effort in good faith 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.¹⁸

XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL

67. This document is subject to revisions based on changing conditions on the ground, and all changes will be initiated by the government request and approved by ADB. All revisions and/or updates during the course of implementation should be retained in this section to provide a chronological history of changes to implemented arrangements recorded in the PAM, including revision to contract awards and disbursement s-curves.

	Date
PAM approved by ADB	
First Revision	

¹⁷ ADB's Integrity Office website is available at <http://www.adb.org/integrity/unit.asp>.

¹⁸ Accountability Mechanism. <http://www.adb.org/Accountability-Mechanism/default.asp>.

ANNUAL ENVIRONMENTAL AND SOCIAL MONITORING REPORT

A. Scope of Participating Financial Institutions' Environmental Monitoring of Subborrowers

1. Environmental monitoring will be based on information gathered relating to environmental impacts and risks during the lifetime of a transaction and supplemented with site visit, if needed. Monitoring is needed to ensure subborrowers' compliance with applicable national laws and regulations, with ADB safeguard requirements and legal agreements. Monitoring of subborrowers should focus on the following main aspects:

- (i) The subborrowers' ongoing compliance with applicable national laws and regulations and with ADB's safeguard-related requirements in Safeguard Policy Statement;
- (ii) The subborrowers' compliance with conditions included in the ADB loan agreement with Bangladesh Bank;
- (iii) Regulatory trends (e.g., changing environmental laws and regulations) may introduce new standards which cannot easily be met by the subborrower, thus exposing both parties (bank and subborrower) to new sources of risk and liability; and
- (iv) Subborrowers continuing to pay significant fines for ongoing environmental violation and non-compliance and for which the PFI's assistance may be needed to help the subborrower achieve compliance. Although fines may appear as minor operating costs, they may signal future major liabilities.

2. Periodic reports on the environmental and social performance of subloans should be brief and focus on the following:

- (i) The nature of subloans made (size, purpose, term), vulnerability of location, and environment and social safeguards categories;
- (ii) Any major environmental and/or social-related accidents or incidents;
- (iii) Any litigation, complaints, or fines for non-compliance with environmental or social or health and safety regulations brought to the PFI's attention or otherwise known to the PFI; and
- (iv) Any non-compliance with ADB's prohibited investment activities list.

List of Approved CMSE Subloan

Subproject/ company name	Location (ideally to include land use or surrounding environmental feature)	Sector/ subsector	Nature of business activity	Subloan amount	Purpose of subloan	Term of Subloan	Category EN/IR/IP	Compliant with applicable national laws and regulation(Y/N)	Compliant with PIAL* (Y/N)	Remarks

EN = environment, IP = indigenous people, IR = involuntary resettlement, PIAL = prohibited investment activity list.

Note: This information will be captured through the project performance management system.

Source: Asian Development Bank.

B. Scope of Bangladesh Bank's Environmental Monitoring of PFIs

3. Bangladesh Bank's monitoring of PFIs will focus on the following:

- (i) Appointment of trained staff to implement the safeguards screening checklist;
- (ii) Appropriate implementation of safeguards screening checklist for subprojects;
- (iii) Compliance with relevant selection criteria for qualified subprojects as stipulated in the loan agreement between ADB and Bangladesh Bank;
- (iv) Bad subloans resulting from environmental and social problems;
- (v) Environmental opportunities or effects associated with subloans;
- (vi) Subloans rejected on environmental, social, health, and safety grounds;
- (vii) Operationalization of environmental and social safeguards management system, and availability of qualified staff;
- (viii) Management of environmental risks consistent with the Environmental Risk Management Guidelines for Banks and Financial Institutions in Bangladesh issued by Bangladesh Bank in 2011 or its update; and
- (ix) Difficulties and constraints related to the implementation of the safeguard screening checklist or environmental safeguards management system.

C. Scope of ADB monitoring of Bangladesh Bank

- (i) Review and approve subproject safeguard screening checklist in consultation with ADB prior to loan disbursement to any PFI;
- (ii) Training of PFI staff on the use of subproject safeguard screening checklist and monitoring of subborrowers;
- (iii) Compliance with relevant PFI selection criteria;
- (iv) Compliance with safeguard-related provision on conditions for disbursement to each PFI; and
- (v) Compliance with other relevant loan covenants.

D. Scope of Monitoring Report of Bangladesh Bank to ADB

4. Bangladesh Bank's annual monitoring report to ADB will cover points outlined in sections A, B, and C above.

PARTICIPATING FINANCIAL INSTITUTION SELECTION CRITERIA

1. Prior to declaring a financial institution eligible for inclusion in the project as a participating financial institution (PFI), Bangladesh Bank as the implementing agency will evaluate each candidate financial institution based on the criteria defined in this document. ADB will assess all potential PFIs to ensure that the eligibility criteria for PFIs as defined in OM D6 have been met.¹ ADB will further assess the PFI's financial soundness as evidenced by adequate capital, asset quality, liquidity, and profitability. ADB concurrence is required prior to declaring each PFI as eligible for inclusion in the project as a PFI. Moreover, all PFIs should continue to meet the eligibility criteria for the duration of project implementation. ADB reserves the right to disallow disbursements from the credit facility to any PFI not conforming with any of the above criteria until such time as the PFI is able to satisfy the PFI eligibility criteria.

2. Each private sector scheduled bank or FI can avail funds from the program up to equivalent of 20% of its shareholder equity, unless with the explicit agreement of Bangladesh Bank and ADB.

3. The PFIs must comply with the following eligibility criteria:
 - (i) Cottage, micro, small lending commitment and capacity of PFIs. Each PFI must have a track record of performance on lending to the relevant sector;
 - (ii) Compliance with applicable prudential regulations and guidelines of Bangladesh Bank. Each PFI must follow all applicable prudential regulations and guidelines of Bangladesh Bank;
 - (iii) Minimum CAMELS rating. Each PFI must have a minimum rating of 2 or better on the CAMELS-based assessment carried out by Bangladesh Bank. Each PFI must at least maintain its CAMEL rating throughout the life of the project, unless it's a target bank² for which MOF has provided a guarantee in favor of Bangladesh Bank³
 - (iv) The non-performing loan ratio lower than 10% (footnote 18) unless it's a target bank for which MOF has provided a guarantee in favor of Bangladesh Bank;⁴ and commitment to disburse \$3 million each year under the project.
 - (v)

4. Provisions will be included in each participation agreement between Bangladesh Bank and a PFI that require the PFI to (i) maintain financial soundness; (ii) conduct its operations in accordance with sound financial principles and practices; (iii) maintain a lending and investment policy acceptable to ADB and Bangladesh Bank to enable it to effectively appraise the financial, technical, environmental, and economic feasibility of investment projects; and (iv) supervise and monitor the implementation of investment projects by beneficiaries. ADB reserves the right to disallow disbursements from the credit facility to any PFI not conforming with any of the above criteria until such time as the PFI is able to satisfy the criteria. Such PFI shall be required to remedy any default of eligibility criteria within 6 months of default and in any event, within the disbursement period of the Employment Project.

¹ ADB. 2003. Bank Policy Financial Intermediation Loans. Operations Manual. OM D6. Manila.

² Target bank means a state-owned bank or financial institution owned by the government, or a bank or financial institution established under a special act or regulation, with the objective of employment creation for youth, returning migrants or rural entrepreneurs.

³ For banks established by the government with the objective of employment creation among the youth, returning migrants, and rural entrepreneurs, MOF may provide guarantee on the repayment of the loans to Bangladesh Bank in lieu of meeting this criterion.

⁴ Non-performing loan ratio is the ratio of gross non-performing loan over all outstanding loan amount.

5. Each PFI must comply with the environmental and social safeguards management arrangement of the project in form of a subproject screening checklist designed to identify, remedy, and monitor subprojects' compliance according to ADB's Safeguard Policy Statement (2009).

SUBLOAN AND SUBBORROWER CRITERIA

1. Participating financial institutions (PFIs) will comply with the following requirements in selecting eligible subborrowers:
 - (i) Subborrower must be economically and financially viable and presented reasonable business plans;
 - (ii) Subborrowers may not be related parties of the PFI's board or senior management;
 - (iii) Subborrowers must be (a) operated by returning migrants (returned since the beginning of 2020) or families of migrants, or (b) operated by youth with training (18–45 years old), or (c) located outside Dhaka and Chattogram metropolitan areas;
 - (iv) Subborrowers must contribute 20% of the equity in their business;
 - (v) Subborrowers must not have default history; and
 - (vi) Subborrowers must meet other credit requirements of the PFIs.

2. Subborrowers must belong to the cottage and micro enterprise as defined by Bangladesh Bank. Small enterprises as defined by Bangladesh Bank and located outside of Dhaka and Chattogram metropolitan area that are also affected by COVID-19 pandemic¹ will also qualify. Maximum subloan size is Tk 5 million. With a tenor of less than 5 years. Subloans can be used for the purpose of working capital or long-term investment.

3. PFIs will ensure that the subloans are for financing subprojects with no significant environmental, involuntary resettlement or indigenous peoples impacts under ADB's Safeguard Policy Statement (2009), i.e., only category C subloans are permitted in this project.

4. The interest rate for the subloan shall reflect funding cost of the PFIs and the credit risk of the subborrowers and shall be determined by Bangladesh Bank, agreeable to ADB.²

5. In addition to the above criteria, PFIs must adhere to other requirements as specified in the loan agreement and the project agreement.

¹ PFIs will determine Covid-19 affected small entrepreneurs by using their banking experience and prudence.

² ADB project officer's written concurrence will be needed.

QUARTERLY/ANNUAL MONITORING REPORT
as of Q1 2022

Bangladesh: Supporting Post-COVID-19 Small-Scale Employment Creation Project
Loan Agreement No: [xxxx]

A. Introduction and Basic Data:

ADB Loan Number:	Xxxx
Project Title:	Supporting Post-COVID-19 Small-Scale Employment Creation Project
Loan Allocations:	ADB (\$million):150
Important dates:	Dates of Approval (dd-mm-yyyy): Date of Signing (dd-mm-yyyy): Date of Effectiveness (dd-mm-yyyy):
Executing Agency:	
Implementing Agency:	
Original Loan Closing Date:	30 June 2025
Revised Loan Closing Date:	N/A

B. Disbursement

Quarterly Disbursement Progress
(BDT million with two decimal points)

Quarters	ADB Fund	Government/Bangladesh Bank	PFI	Sub-Borrowers' Equity	Total
Target:					
Quarter 1, Year 1					
Quarter 2, Year 1					
Quarter 3, Year 1					
Quarter 4, Year 1					
...					
Total Target					
Actual:					
Quarter 1, Year 1	-	-	-	-	

PFI = participating financial institutions.

Discussion on Deviations and Remedial Measures

<p align="center">Reasons for deviation: Any reasons for deviations of actual and target disbursements will be discussed in detail.</p>	<p align="center">Remedial measures for addressing deviations: The actions that would be taken to address the deviations should be discussed here.</p>

C. Subloan Analysis

Parameters	Year 1 (YTD)	Year 2 (YTD)	Year 3 (YTD)	Year 4 (YTD)	Year 5 (YTD)	Total
Type of Loan: Number						
Working Capital Loan (<= 1 year)						
Loan for Capital Investment (1–5 years)						
Type of Loan: BDT million						
Working Capital Loan (<= 1 year)						
Loan for Capital Investment (1–5 years)						
Maturity Analysis: Number						
Short Term Loan (<= 1 year)						
Medium Term Loan (1–3 years)						
Long Term Loan (3–5 years)						
Maturity Analysis: (BDT million)						
Short Term Loan						
Medium Term Loan						
Long Term Loan						
Subloans by PFI: (number)						
Banks						
FIs						
Subloans by PFI: (BDT million)						
Banks						
FIs						
Gender Analysis: (number)						
Male-owned						
Female-owned						
Gender: (BDT million)						
Male-owned						
Female-owned						
Business Classification: (number)						
Manufacturing						
Service						
Trade						
Business Classification: (BDT million)						
Manufacturing						
Service						
Trade						
Type of SME: (BDT million)^a						

Parameters	Year 1 (YTD)	Year 2 (YTD)	Year 3 (YTD)	Year 4 (YTD)	Year 5 (YTD)	Total
Cottage						
Micro						
Small						
Type of SME: (Number)						
Cottage						
Micro						
Small						
Employment: (Headcount)						
Employment before Refinancing						
Additional employment created						
Subloan Type: (Number)						
First Time Borrower						
Old Borrower						
Loan Performance: (BDT million)	Data	Not	Available			
Unclassified						
Overdue						
Special Mention						
Bad Loss						
Loan Performance: (Number)^b						
Unclassified						
Overdue						
Special Mention						
Bad Loss						
Environmental category: (Number)						
Red						
Orange						
Green						
Subloan Size: (Number)						
<BDT 500,000						
BDT 500,000 - BDT 2,000,000						
BDT 2,000,000 - BDT 5,000,000						
Subloan Size: (BDT)						
<BDT 500,000						
BDT 500,000 - BDT 2,000,000						
BDT 2,000,000 - BDT 5,000,000						

^a As per definition of the Government/Ministry of Industries/Bangladesh Bank.

^b As per Bangladesh Bank Guideline.

D. Compliance with Covenants

Key Operational Covenants

Parameters	Target	Actual (Cumulative BDT million)	Comments with reasons for any deviation and remedial action

Compliance with Loan Agreement

**Covenants will be inputted as stipulated in Loan Agreements
(Article IV–Particular Covenants, Schedule 3–Execution of Project; Financial Matters)**

Covenants	Reference in Loan Agreement	Timeline	Complied / Being Complied with / Not Complied Reasons for non-compliance and remedial action taken or to be taken

Compliance with Project Agreement

**Covenants will be inputted as stipulated in Project Agreement
(Article IV–Particular Covenants)**

Covenants	Reference in Project Agreement	Timeline	Complied / Being Complied with / Not Complied. Reasons for non-compliance and remedial action taken or to be taken

Compliance with Audit Report of Foreign-Aided Project Audit Directorate (FAPAD)

FY	FAPAD Observations	Response from the Implementing Agency and timeline for resolution
2021–2022		
2022–2023		

E. Progress with Parameters of Design and Monitoring Framework (DMF)

Performance Indicators with Targets and Baselines	Achievement to date with data source and projection of compliance by timeline; Any reason for not achieving the target.
Output 1:	
Output 2:	
Output 3:	

F. Continuing Eligibility of PFIs

Name of PFIs	Bank/NBFI	Qualified or not	Reasons if not qualified

Discussion on performance of PFIs: Provide a discussion on PFIs, who are the lowest performers in terms of disbursement, interest rate and non-performing assets, and the action plan for improving their performance.

Attachment: Annual report of Participating Financial Institution

Summary of participating financial institutions (PFIs): Apart from individual analysis, the implementing agency will also provide every year a summary of all PFIs as part of compliance of continuing eligibility criteria.

G. Project Issues and Problems

Describe major Issues related to the project and its implementation	Describe the remedial actions taken or to be taken to address each issue
Design Issues:	
Readiness Issues:	
Implementation Issues:	
Compliance Issues:	
Other Issues:	

H. Attachments:

- (i) Annual Report of PFIs (yearly submission)
- (ii) Audit Report of Foreign Aided project Audit Directorate (yearly submission)
- (iii) Continuing Eligibility Report of PFIs (yearly submission)
- (iv) Minutes of meeting of Project Steering Committee
- (v) Environmental and social safeguard report

- (vi) Excel file: The implementing agency will provide a softcopy of excel of PFI-wise data containing columns of the following parameters:
- Vulnerable group tagging;
 - Gender of the borrower;
 - Tenors;
 - Geographic location in terms of districts and divisions;
 - Type of financial institutions, such as bank and non-banking financial institutions;
 - Interest rate;
 - Broad sector classification, such as, trade, service and industry;
 - Type of enterprise (cottage, micro, and small)
 - Ownership by type of gender–male and female;
 - Employment generation;
 - Loan performance as per Bangladesh Bank guidelines;
 - Type of subloans– unemployment youth, returnee migrant and rural enterprise ;
 - First time loan by sub-borrower / repeat sub borrower of the project
 - Type of project–new or expansion
 - Collateral–none, land and buildings, stocks and book debts, guarantees etc.
 - Type of loan–working capital and fixed investment in land and buildings or machinery
 - Export-orientation–export-oriented or domestic consumption
 - Environmental category

SEMI-ANNUAL GENDER ACTION MONITORING REPORT

Targets	Indicators	Activities	Responsibilities	Status