

# Project Administration Manual

Project Number: 49273-002  
Loan and/or Grant Number(s): L3370; LXXXX; TA9080  
November 2017

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

## ABBREVIATIONS

ADB	–	Asian Development Bank
BPO	–	business process outsourcing
CBSL	–	Central Bank of Sri Lanka
EMS	–	environmental management system
ICT	–	information and communication technology
PFI	–	participating financial institution
PMU	–	project monitoring unit
PPMS	–	project performance management system
SC	–	steering committee
SMEs	–	small and medium-sized enterprises
SOE	–	statement of expenditures
SPS	–	Safeguard Policy Statement
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 Ministry of Finance and Mass Media (MOF) and 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 the policies and procedures of the government and ADB. ADB staff is responsible for supporting implementation including compliance by MOF and participating financial institutions 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 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.

## 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 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. Small and medium-sized enterprises (SMEs) are a source of economic growth and employment. Yet, they often struggle to access bank 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 use financial incentives to encourage banks to lend to SMEs, particularly those that typically struggle to access financing. 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. **Fund allocation process.** The project was originally approved in February 2016. The \$100 million equivalent credit line is expected to be fully disbursed by January 2018. The first and second fund allocations of \$12.5 million were auctioned in April 2016 and September 2016. The third and fourth fund allocations of \$37.5 million were distributed pro rata among eligible participating financial institutions (PFIs) in March 2017 and September 2017. The additional \$75 million will continue with the current pro rata allocation process.

5. Eligible PFIs will request the amount that they would like to borrow from the Asian Development Bank (ADB) credit line. The request (Appendix 1) should be submitted no later than (i) 30 March 2018 for the fifth funding round, (ii) 28 September 2018 for the sixth funding round, and (iii) 29 March 2019 for the seventh. PFI eligibility criteria are specified in Appendix 2. Each PFI may request between \$1 million up to the prorated maximum available at each of the allocations. If insufficient funds remain to meet all the PFIs' requests, the funds will be allocated pro rata. PFIs will not be allowed to participate in a subsequent allocation until 80% of the previous allocation has been disbursed to eligible subborrowers. Compliance with the disbursement requirements will be assessed 1 month prior to the next allocation. Moreover, 20% of the number of subloans must be lent to subborrowers that have not previously borrowed from a licensed commercial or specialized bank, 20% of the number of subloans must be lent to subborrowers that are led by women, and 70% of the total subloan amount must cumulatively be lent to targeted SMEs, 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

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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 and Mass Media. 2015. *Statement by the Minister of Finance on Hundred Day Revolution*. Colombo (revised budget speech).

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

bank. Detailed eligibility criteria (updated) for subborrowers are in Appendix 3.

## II. IMPLEMENTATION PLANS

### A. Project Readiness Activities

Indicative Activities	2017					2018						Responsible Unit
	08	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
ADB Board approval						▲						ADB
Loan and project agreements signing								▲				ADB, MOF, PFIs
Government legal opinion provided								▲				MOF, MOJ
Signing of the subsidiary loan agreements between MOF and PFIs								▲				MOF, PFIs
Loan effectiveness								▲				MOF, ADB
First allocation								▲				MOF, PFIs
First disbursement											▲	ADB, MOF

ADB = Asian Development Bank, MOF = Ministry of Finance and Mass Media, MOJ = Ministry of Justice, PFIs = participating financial institutions.

Source: Asian Development Bank.



### III. PROJECT MANAGEMENT ARRANGEMENTS

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

##### 1. Steering Committee

7. A steering committee (SC) will oversee project implementation. The members of the SC are:

- (i) secretary or deputy secretary to the Treasury (chair);
- (ii) director general, Department of Development Finance;
- (iii) a representative from the External Resources Department;
- (iv) a representative from the Department of Project Management and Monitoring;
- (v) a representative from the Asian Development Bank;
- (vi) a representative from the Export Development Board;
- (vii) a representative from the Federation of Commerce and Industry;
- (viii) a representative from the Central Bank of Sri Lanka; and
- (ix) others who may be considered appropriate by the Government of Sri Lanka.

8. The SC's secretariat will be performed by the project management unit (PMU) of Ministry of Finance and Mass Media (MOF). Although PFIs will not be members of the SC, the SC will periodically seek their feedback.

9. 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.

10. The SC will convene semiannually during the first 12 months of implementation and thereafter as needed.

11. The SC may also decide to reallocate any undisbursed funds prior to and increase the maximum allocation available at the last allocation so as to ensure that the loan's closing is not delayed due to undisbursed funds.

##### 2. Project Management Unit

12. The PMU has already been established, and there are currently nine staff.

13. The position of project director (PD) will be assigned to the PMU head. The PD will be primarily responsible for project implementation and PMU management. Preferably, the PMU will be staffed with officials who have prior experience with ADB projects.

14. 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) maintenance of MOF advance and local currency accounts and the PFIs' ledgers and



- (b) preparation of statements of the MOF advance account, MOF local currency account, and PFIs' ledgers.
- (ii) Recovery and monitoring
- (a) invoicing of PFIs for interest and repayment and
- (b) preparation of annual reports and project completion report.
- (iii) Administration and appraisal
- (a) annual accreditation of PFIs;
- (b) review of withdrawal applications from PFIs to include verifying compliance with the onlending requirements for targeted SMEs and, where appropriate, preparation of initial environmental examination;
- (c) approval and disbursement of the funds to PFIs; and
- (d) submission of statement of expenditure.

<b>Project Implementation Organizations</b>	<b>Management Roles and Responsibilities</b>
Ministry of Finance and Mass Media (MOF)	<ul style="list-style-type: none"> <li>➤ Acts as executing agency 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 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 onlending 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 advance account at CBSL, convert disbursements 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 subborrowers and financial viability of subprojects</li> <li>➤ Implement and ensure compliance with the selection criteria for subborrowers, subprojects, and subloans and with covenants in project agreement</li> <li>➤ Ensure that the qualified subborrowers comply with ADB's Safeguard Policy Statement (SPS) and applicable environmental, health and safety, and social laws and regulations of the borrower</li> <li>➤ Submit to MOF a withdrawal request for approval</li> <li>➤ Submit annual audited entity-level financial statements with the auditors' report and management letter</li> <li>➤ Submit audited statements of fund utilization</li> <li>➤ Submit through the PMU semiannual reports as of 28 February and 31 August within 15 days of the reporting period end</li> <li>➤ Submit to ADB annual safeguards monitoring report</li> <li>➤ Respond to other information requests as required</li> </ul>
ADB	<ul style="list-style-type: none"> <li>➤ Prepare a project completion report within 12 to 24 months from project closing date</li> <li>➤ Provide overall project coordination</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>

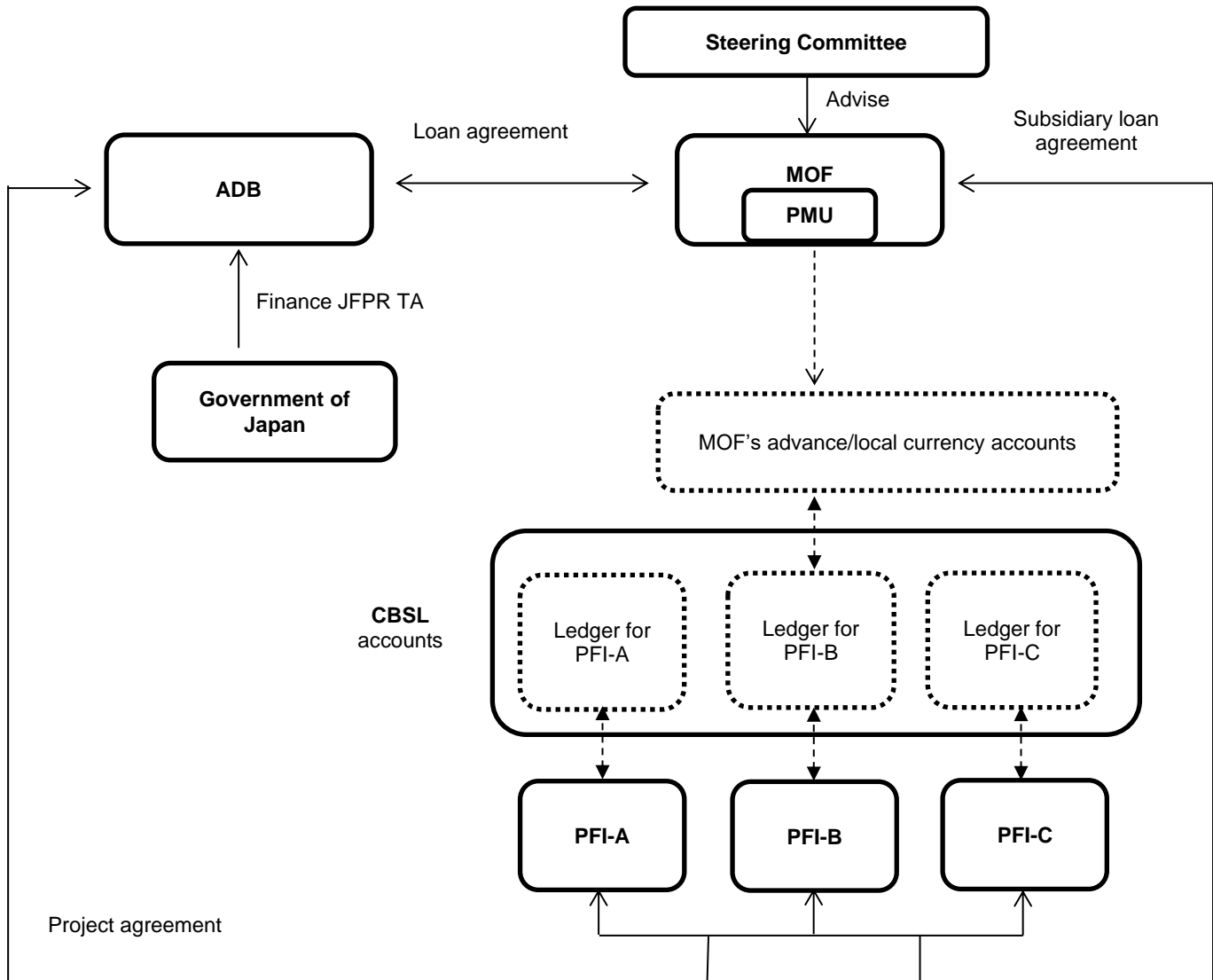
ADB = Asian Development Bank, IEE = initial environmental examination, PMU = project management unit, SME = small and medium-sized enterprises, TA = technical assistance.

Source: Asian Development Bank

## B. Key Persons Involved in Implementation

<p><b>Executing Agency</b> Ministry of Finance and Mass Media</p>	<p>Mr. A.M.P.M.B. Atapattu Director General Department of Development Finance, Ministry of Finance and Mass Media +94 11 248 4542 <a href="mailto:atapattu.ampmb@dfd.treasury.gov.lk">atapattu.ampmb@dfd.treasury.gov.lk</a></p>
<p><b>Asian Development Bank</b> Public Management, Financial Sector, and Trade Division (SAPF) South Asia Department (SARD)</p>	<p>Mr. Bruno Carrasco Director Fax No.: (63-2) 636-2337 E-mail: <a href="mailto:bcarrasco@adb.org">bcarrasco@adb.org</a></p> <p>Mr. Don Lambert Senior Finance Specialist Tel. No.: (63-2) 632-5921 E-mail: <a href="mailto:dlambert@adb.org">dlambert@adb.org</a></p>

### C. Project Organization Structure



ADB = Asian Development Bank, CBSL = Central Bank of Sri Lanka, JFPR = Japan Fund for Poverty Reduction, MOF = Ministry of Finance and Mass Media, PFI = participating financial institution, PMU = project management unit, TA = technical assistance.

Source: Asian Development Bank.

#### IV. COSTS AND FINANCING

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

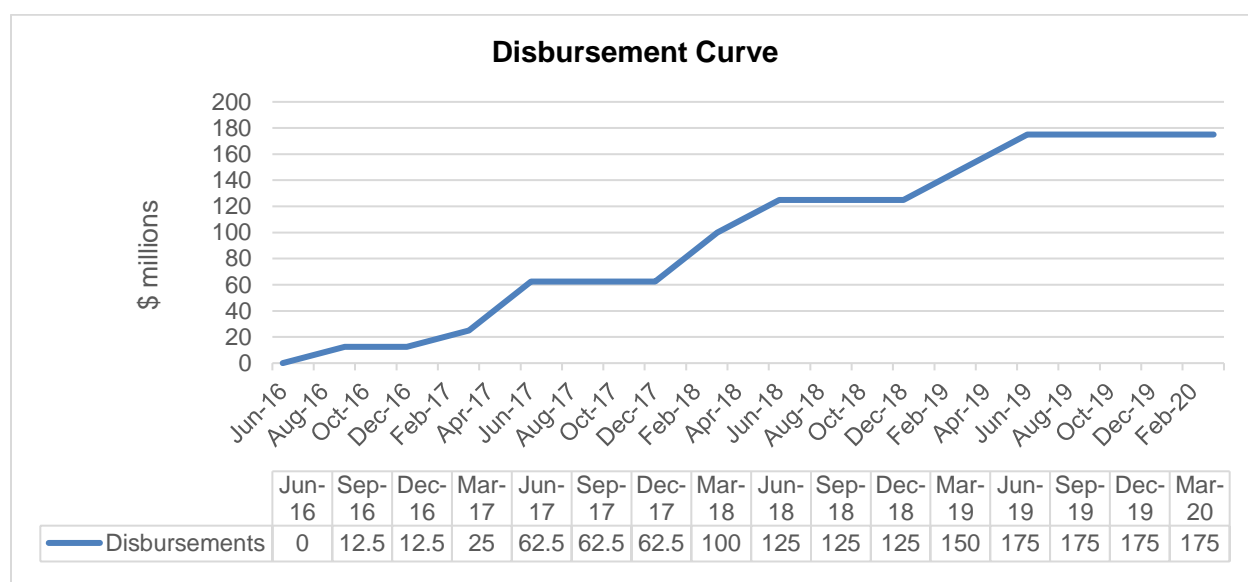
##### A. Allocation of Loan Proceeds

16. **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.

17. **Relending (government to PFIs).** MOF will relend the ADB loan to the PFIs in local currency fixed at the Central Bank of Sri Lanka's most recently published average weighted deposit rate, with a 10-year term, and with principal due at maturity pursuant to a subsidiary loan agreement with each PFI.<sup>4</sup> The Government of Sri Lanka will bear the foreign exchange risks.

18. **Onlending (PFIs to SMEs).** Onlending from the PFIs 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. The ADB loan will finance 100% of the PFIs' subloans up to the individual transaction ceiling of Rs50 million.

##### B. Disbursement S-Curve

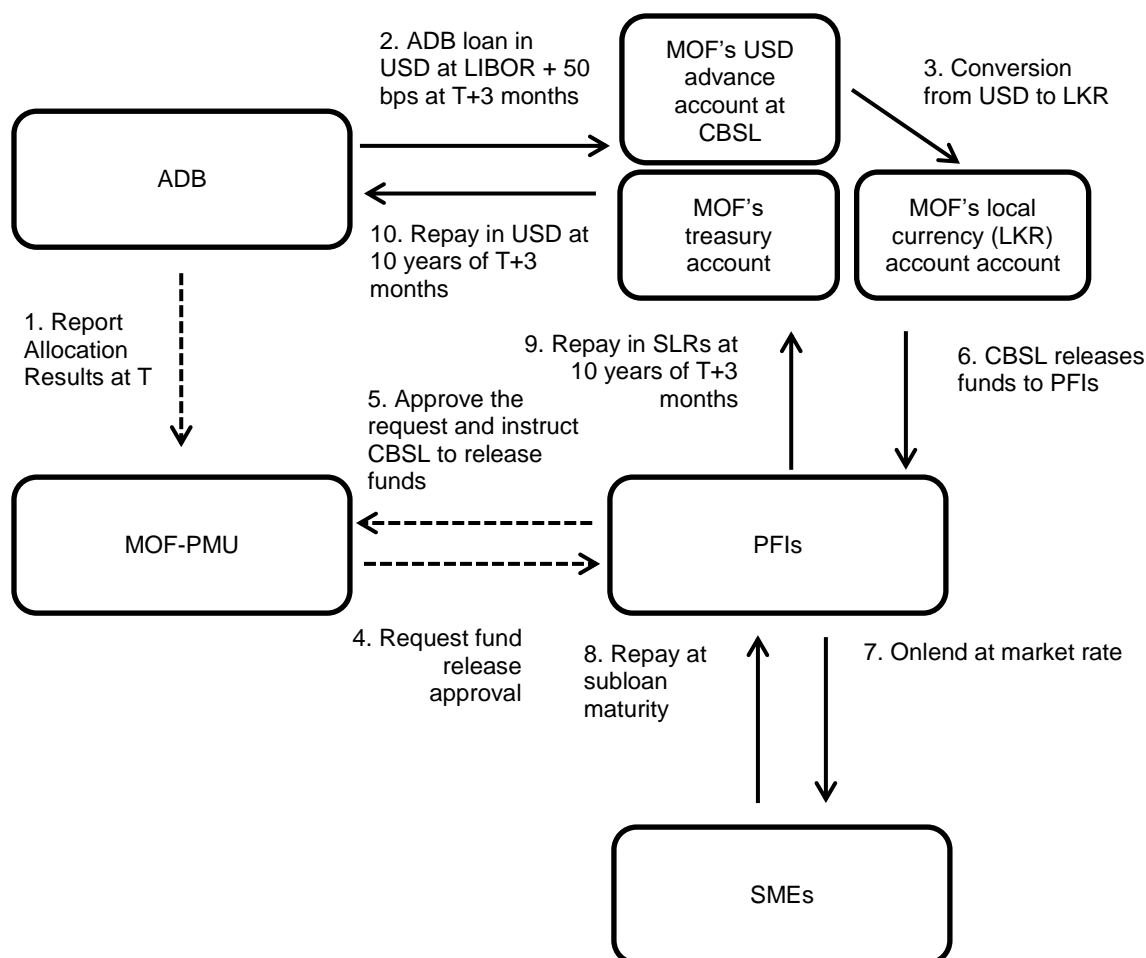


Source: Asian Development Bank.

<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.

<sup>4</sup> Alternately, government may elect to return to rates determined through auction.

### C. Fund Flow Diagram



ADB = Asian Development Bank, CBSL = Central Bank of Sri Lanka, LKR = Sri Lankan rupees, MOF = Ministry of Finance and Mass Media, PFIs = participating financial institutions, PMU = project management unit, SLRs = Sri Lankan rupees, SMEs = small and medium-sized enterprises, USD = United States dollar

Note: Solid arrows represent fund flows and broken arrows information flows that trigger fund flows.

Source: Asian Development Bank

## V. FINANCIAL MANAGEMENT

### A. Financial Management Assessment

19. A financial management assessment (FMA) has been conducted on MOF and 10 PFIs in accordance with ADB's 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 regulated, have mature financial management systems in place, and have experience in handling credit line facilities from ADB. An integrity due diligence 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 macroeconomic situation and in particular the external liquidity position, 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 allocation procedure 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 prior experience in administering similar donor funded programs. MOF has the necessary financial management capacity—including procedures for making payments, accounting for transactions, financial reporting, auditing of financial statements, and internal control procedures—to avoid misuse or misappropriation of funds and assets.

## **B. Disbursement**

20. **General.** For each allocation, 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.

21. The ADB loan will be disbursed per the 6-months estimated expenditures of the allocation mechanism, and in accordance with ADB's Loan Disbursement Handbook (2017).

22. ADB's advance fund and statement of expenditures (SOE) procedures will be used for disbursements under the loan.<sup>5</sup>

23. **Advance.** The total outstanding advance to the advance account should not exceed the cumulative total of each PFI's estimate of expenditures for the forthcoming 6 months.<sup>6</sup> PFIs that have not disbursed at least 80% of their allocated funds within 2 months of the previous disbursement may not request additional funds. The PMU will request for initial and additional advances to the advance account based on an estimate of expenditures sheet. Supporting documents should be submitted to ADB or retained by PMU in accordance with ADB's Loan Disbursement Handbook (2017, as amended from time to time) when liquidating or replenishing the advance account.

24. **Advance account.** MOF will establish and administer a separate advance account in US dollars at CBSL for exclusive use of the project to facilitate disbursements and provide accountability. MOF, who will establish the advance account in its name, is accountable and responsible for the proper use of advances to the advance account. In addition, MOF will establish a separate local currency (LKR) account. After the announcement of allocation results, ADB will transfer loan proceeds to the MOF's US dollar advance account within approximately 10 working days upon receipt of a satisfactory and fully documented request. 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>5</sup> Details of SOE procedures are available in the Loan Disbursement Handbook (2017).

<sup>6</sup> The advance request should equal the amount requested through the semiannual allocation plus any funds not yet liquidated to ADB at the time of preparing the withdrawal application. ADB's Controller's Department will disburse the requested amount net of the unliquidated amount.

25. **Subloan approval by PMU.** To release funds from the separate local currency account, PFIs will submit withdrawal requests to the PMU.<sup>7</sup>

26. **Liquidation.** The PMU will consolidate eligible expenditures and submit to ADB for liquidation. Liquidation will follow SOE procedures. The corresponding bank statement and the advance account reconciliation statement are also required to be submitted.

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

28. **Minimum value per withdrawal application.** The minimum value per withdrawal application is \$200,000 equivalent. Individual payments below this amount should be paid by the MOF and subsequently claimed from the ADB advance account, unless otherwise agreed to with ADB.

29. **Recycling of reflows from SMEs to PFIs.** As subloans 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 subloans. 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**

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

31. The PFIs will also maintain separate books and accounts relating to all subloans. 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>8</sup> The PFIs will prepare and submit the audited statement of utilization of funds for subloans, in the English language within 6 months after the end of the fiscal year.

32. 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 will also be provided, unless already provided with the entity-level financial statements. PFIs will enable ADB, upon ADB's request, to discuss the financial statements for the project with the auditors and will authorize and require such auditors to participate in any such discussions.

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<sup>7</sup> A PFI only needs to submit one withdrawal request for a subloan that is disbursed in tranches. If the later tranches are subsequently cancelled, the PFI may apply to the PMU to use the remaining funds for a different subloan.

<sup>8</sup> In the case of the state-owned banks, auditors appointed by the auditor general constitute an independent auditor.

33. 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. If the audited entity-level financial statements do not address each of the project's financial covenants, then the PFI's auditor must prepare a separate letter that reports on each covenant. The audited entity-level financial statements, together with the auditors' report, will be submitted in the English language to ADB within 1 month after their approval by the competent authority.

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

35. 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>9</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.

36. Public disclosure of the audit opinion and related statements of fund utilization will be guided by ADB's Public Communications Policy (2011).<sup>10</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**

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

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

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

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<sup>9</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 advance 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 advance 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>10</sup> Available from <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>



39. All consultants and nongovernment organizations under the TA will be recruited according to ADB's Guidelines on the Use of Consultants (2013, as amended from time to time).

### C. Procurement Plan

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

## VII. SAFEGUARDS

41. 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; 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 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: (a) avoid, and when avoidance is not possible, minimize and mitigate adverse impacts of subprojects on the environment and affected people and (b) maximize opportunities for environmental benefits.

42. If a PFI does not have an EMS that ADB has approved, it may only lend to category C subprojects that are included in the Environmental Management System Framework (as may be updated by ADB from time to time during implementation) or that have been reviewed and confirmed as category C by the PMU's safeguards officer. This will be covenanted in 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.

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

- (i) all subprojects using ADB funds are screened against the Prohibited Investment Activities List (PIAL) of the ADB Safeguard Policy Statement (2009);
- (ii) 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);
- (iii) 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
- (iv) all subprojects will undergo screening and categorization using a checklist as approved by ADB.

44. 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 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.

45. The following categories will be outright rejected in the list of eligible subprojects 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.

46. 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

47. 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 at least 15% of the subborrowers to be women-led SMEs. Furthermore, the associated TA subproject will build women entrepreneurs' capacity to access finance resources and services.

48. 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 information technology sector. No data is available on women entrepreneurs involved in the fruits and vegetables. 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 microenterprises 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 and fruits and vegetables. The gender responsive value chain analysis of these 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: (a) lack of skills and cultural barriers to start and run a business and dependence on their husbands for financial support, (b) lack of access to markets and information on market needs and difficulties in finding new markets for products, (c) lack of access to finance due to low financial literacy and lack of collateral for bank loans, and (d) 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.

49. Consistent with the design criteria of an EGM-categorized project, a gender action plan (GAP) was developed, which will continue to be implemented during the additional financing. The implementation is generally on track. Assessment of gender-related issues in the original three target clusters (fruits and vegetable, rubber, and ICT-BPO) and an additional cluster (processed food and beverage) has been completed and frameworks for the implementation of gender-related initiatives were prepared. The implementation of some activities, such as trainings for women entrepreneurs and career events for female students, is delayed mainly because the processed food and beverage cluster was added to the targeted clusters and the consensus building among key stakeholders on the approaches to enhancing women's participation in ICT-BPO sector has taken more time than originally scheduled. However, all activities will be completed and targets will be achieved during project period. Timelines for lagging activities and targets are revised. 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 <sup>a</sup>	Targets and Indicator	Responsible Unit	Timeframe
Outcome: SME's access to finance strengthened			
	At least 20% of subborrowers of credit facility (of associated loan project) are women-led SMEs (project baseline as of February 2017: 17.5%) <sup>c</sup>	Participating financial institutions  Project management unit	Q4 2018
Output 3. <sup>b</sup> 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 2017	<ul style="list-style-type: none"> <li>Gender responsive value chain analysis of ICT-BPO, fruits and 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>	Completed in Q2 2017
3b.2. Provide business development services to women entrepreneurs as per the recommendations of the analysis by Q4 2017	<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> </ul>		Q4 2017
3b.3. Assess the capability development needs of women entrepreneurs and design training modules on business development and management (including financial literacy) in three clusters based on identified capability development needs by Q2 2017	<ul style="list-style-type: none"> <li>Training modules designed based on identified capability development needs of women entrepreneurs</li> </ul>		Completed in Q2 2017

Activities <sup>a</sup>	Targets and Indicator	Responsible Unit	Timeframe
3b.4. Launch initiatives to strengthen networks of women entrepreneurs by Q4 2017	<ul style="list-style-type: none"> <li>• At least three forums on women entrepreneurs conducted</li> <li>• Success stories of at least six women entrepreneurs in three clusters (two stories per cluster) documented and disseminated widely</li> </ul>		Q4 2017
3b.5. Train 500 actual and potential women entrepreneurs in business development and management (including financial literacy) in the three SME clusters by Q4 2018	<ul style="list-style-type: none"> <li>• At least 500 actual and potential women entrepreneurs trained</li> <li>• Business management plans of at least 60% of trained women entrepreneurs passed the standards/evaluation of trainers</li> </ul>		Q4 2018
<b>Output 4. International competitiveness of ICT-BPO cluster strengthened</b>			
<b>4b. By 2017, at least 500 females participated in career events for working in ICT-BPO cluster (2015 baseline: 0)</b>			
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 Q1 2017	<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>	Completed in Q1 2017
4b.2. Provide support for school career counselors to construct strong network with ICT-BPO professionals by Q4 2017	<ul style="list-style-type: none"> <li>• MOU forged with identified educational institutions</li> <li>• Career counselors in at least five schools are updated at least quarterly on developments and work opportunities in the ICT-BPO cluster</li> </ul>		Q4 2017
4b.3. Launch a career forum for females with interest in the ICT-BPO cluster by Q4 2017	<ul style="list-style-type: none"> <li>• At least three participating schools developed networks with ICT-BPO professionals</li> </ul>		Q4 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

BPO = business process outsourcing, ICT = information and communication technology, MOU = memorandum of understanding, Q = quarter, SMEs = small and medium-sized enterprises.

<sup>a</sup> Activity numbering corresponds to the design monitoring framework.

<sup>b</sup> Based on the original project, this project is optimistic that this target will be exceeded because the participating banks have tended to overshoot the requirement to avoid the penalties for failing to meet it.

<sup>c</sup> Output numbers correspond to those in the design and monitoring framework.

Source: Asian Development Bank.

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

### A. Project Design and Monitoring Framework

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

## **B. Monitoring**

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

51. 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 monthly progress reports and a PMU semiannual report 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**

52. PFIs' compliance with the covenants will be monitored by MOF based on the PFI semiannual report, annual audited entity-level financial statements, and audited statement of utilization of funds.

### **3. Safeguards Monitoring**

53. PFIs will evaluate subprojects that are category B for environment on an annual basis against the applicable environmental requirements. The safeguards staff of the PFIs will prepare an annual environmental performance report<sup>11</sup> and submit this to the management of the PFI and to ADB via the PMU for review and approval.

54. 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.<sup>12</sup> The PFI will supervise and coordinate with the subborrower so that the subborrower can take corrective action, if any.

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

55. While Sri Lanka has a good record in gender equality and related issues, the unemployment rate of women is higher than men. Because of more limited employment opportunities, many women become entrepreneurs engaged in small trade activities, with limited opportunity for expansion because of poor access to economic resources. The project is categorized as effective gender mainstreaming because it is expected to promote better monitoring, outreach, and access to finance for women entrepreneurs seeking to expand or modernize their businesses.

## **C. Evaluation**

56. To ensure responsive and timely implementation, ADB will undertake periodic review

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<sup>11</sup> Sample reporting format provided in the Environmental and Safeguard Monitoring Framework.

<sup>12</sup> Sample reporting format provided in the Environmental and Safeguard Monitoring Framework.

missions. There will be regular interaction between the executing agency, PFIs, and ADB. Semiannual performance reviews will be conducted by the MOF, and the Department of Project Management and Monitoring and ADB will review the project annually as part of the ADB Project Portfolio Review.

57. Within 9 months of the final allocation, the executing agency, implementing agency, and Department of Project Management and Monitoring will submit a project completion report to ADB in a form acceptable to ADB.<sup>13</sup> Subsequently, ADB will field a mission to finalize the project completion report.

#### D. Reporting

58. The PPMS is ADB's system for setting program objectives, designing projects, and monitoring and evaluating project performance based on the design and monitoring framework to ensure that goals are consistently being met in an effective and efficient manner.<sup>14</sup> The PPMS will include the following components:

Name of Document	Submitter	Receiver	Timing/Frequency	Purpose
Advance request	PMU	ADB	Following each allocation	Advance to the advance account
Withdrawal request	PFI	PMU	At discretion of PFI	Approval for fund release to PFI's
Statement of expenditure	PMU	ADB	As required	Liquidation
Monthly progress report	PMU	ADB	A week after the end of every month	Summary of PFIs' disbursements and compliance with onlending requirements
PFI semiannual report <sup>a</sup>	PFI	PMU	Within 15 days of and as of 28 February and 31 August	Screen PFIs' eligibility for the next allocation and monitor progress of the project
PMU semiannual report	PMU	Steering committee and posted to project website	By 31 March (as of 28 February) and 30 September (as of 31 August)	Consolidates the PFIs' quarterly performance reports; provide quarterly update of project's status
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 9 months of the final allocation	Provides initial assessment of the project vis-à-vis the design monitoring framework

<sup>13</sup> Project completion report format is available at <http://www.adb.org/sites/default/files/institutional-document/33431/pai-6-07a.pdf>

<sup>14</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.

Name of Document	Submitter	Receiver	Timing/Frequency	Purpose
GAP implementation report	Consultant through EDB	PMU, ADB	Quarterly; also included in the project completion report	Provides an assessment of the progress and accomplishment of gender-related target outputs

ADB = Asian Development Bank, EDB = Export Development Board, GAP = gender action plan, OMF1 = Operations Manual on Financing of Interest and Other Charges During Construction, OMJ7 = Operations Manual on Project Financial Reporting and Auditing, PFI = participating financial institution, PMU = project management unit,

<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 (ix) purpose of the loan (land, working capital, plant, purchase, or equipment, etc.).

Source: Asian Development Bank.

## E. Stakeholder Communication Strategy

59. 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.

60. 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' networks and create a learning environment through sharing of experiences;
- (iv) to provide public accountability; and
- (v) to create public support for the project.

## X. ANTICORRUPTION POLICY

61. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the program.<sup>15</sup> 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 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.

62. 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.

63. ADB's Office of Anticorruption and Integrity<sup>16</sup> is the point of contact to report allegations

<sup>15</sup> Available at <https://www.adb.org/documents/integrity-principles-and-guidelines>.

<sup>16</sup> ADB's Integrity Office website is available at <http://www.adb.org/site/integrity/main>.

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 or anticorruption@adb.org

## **XI. ACCOUNTABILITY MECHANISM**

64. 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>17</sup>

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

65. 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.

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<sup>17</sup> For further information, see <https://www.adb.org/site/accountability-mechanism/main>.



### ALLOCATION REQUEST FORM

The local currency equivalent of \$25 million is available to be allocated among [•] banks. Requests must be at least \$1 million and in increments of \$100,000. Instead of specifying a specific amount, banks may request the maximum available based on pro rata distribution. If undersubscribed, the funds will be distributed as mutually agreed by ADB and the PMU.

The allocation will be lent at a rate of [•]%, which is the [6 or 1]-month average weighted deposit rate published on the Central Bank of Sri Lanka's website as of [February/August] 20[18 / 19].

Your institution will be notified within 3 working days of your allocation. The allocation will be available to disburse for qualified withdrawals on or around [30 June 2018 / 4 January 2019 / 30 June 2019]. From this date, your institution will begin to incur interest charges.

This form must be returned to ADB [acroslin.consultant@adb.org](mailto:acroslin.consultant@adb.org) with copy to [dlambert@adb.org](mailto:dlambert@adb.org) by midnight (Sri Lanka time) of [30 March 2018 / 28 September 2018 / 29 March 2019]. Forms may be sent earlier than that date, but form sent after that time will not be accepted. If a form is incorrectly completed, ADB will attempt to return it; the institution can resubmit it if time permits.

By signing this form, your institution confirms that the signatory is authorized to conduct business on its behalf for this project (including execution of this fund allocation request), that the request for these funds is binding and final, that ADB reserves the right not to accept an allocation request without giving cause, and that your institution agrees to adhere to the requirements of the Project Agreement and the Project Administration Manual.

Either enter an amount \_\_\_\_\_ (minimum \$1 million expressed in increments of \$100,000) or leave the amount blank and check this box  if requesting the maximum available based on a pro rata distribution.

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Position: \_\_\_\_\_

## **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 have confirmed at project inception that the participating financial institution (PFI) is in good regulatory standing, including its corporate governance, reputation/integrity, and compliance with anti-money laundering requirements;
- (ii) Due diligence of Asian Development Bank (ADB) of the PFI is satisfactory;
- (iii) The PFI complies with CBSL's regulatory capital minimum as of its last audited financial statements or as confirmed by its auditor;
- (iv) The PFI has a net nonperforming loan ratio less than or equal to 5.0% as of its last audited financial statements or as confirmed by its auditor;
- (v) The PFI was profitable as of its last audited annual financial statements;
- (vi) The PFI must have tangible equity of at least Rs1 billion as of its last audited financial statements as confirmed by its auditor;
- (vii) If the PFI has undisbursed funds from any other ADB project, including those with ADB's Private Sector Operations Department, the PFI must covenant that it will not prepay the other ADB loan;
- (viii) The PFI must maintain a management information system that can provide quarterly reports on subloan disbursements, repayment performance, lending spreads, targeted SMEs, and other subproject and subborrower information;
- (ix) The PFI must consent that ADB can publicly disclose detailed data on the PFIs' performance and the subloans; and
- (x) The PFI can maintain separate records of subloans under the project.

2. PFIs will ensure that the subloans 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 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 allocations or a demand to repay to the government any outstanding loans under the project.

## SUBLOAN AND SUBBOROWER CRITERIA

1. Participating financial institutions (PFIs) will comply with the following requirements in selecting eligible subborrowers:
  - (i) subborrowers must be economically and financially viable;
  - (ii) subborrowers may not be related parties of the PFI's board or senior management;
  - (iii) subborrowers (the parent company and any subsidiaries) must have annual turnover under Rs750 million or less than 300 employees if in manufacturing or 200 employees if in services; and
  - (iv) subborrowers 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 subloans:
  - (i) 20% of the number of subloans must be lent to subborrowers that have not previously borrowed from a licensed commercial or specialized bank;
  - (ii) 20% of the number of subloans must be lent to subborrowers that are led by women;<sup>1</sup>
  - (iii) 70% of the total subloan amounts must cumulatively be lent to "targeted small and medium-sized enterprises (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 subloans are repaid to the PFIs prior to their repayment to the government, PFIs may onlend the funds so long as the criteria in paragraph 1 are still met. The relending rate must be equal to or less than the Central Bank of Sri Lanka's (CBSL) most recently published average weighted deposit rate plus the average weighted credit margin that the PFI charged on its 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 subloan size is Rs50 million except for cluster loans. No more than 50% of funding may fund subloans for working capital. Subloans for vehicles are ineligible unless the SMEs primary business is transport or tourism or the project management unit has approved the subloan. Subloans may not be used to repay another loan.
  
5. PFIs will ensure that the subloans are for financing subprojects with no involuntary resettlement or indigenous peoples impacts under ADB's Safeguard Policy Statement (2009). 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

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<sup>1</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.

certified that the subloan is compliant with national laws and ADB's Safeguard Policy Statement. In the absence of such system, the subprojects will have no environmental impact.

6. 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 officer has confirmed eligibility. The safeguard specialist's review would include a site visit, the costs of which the PFI will shoulder.

7. In addition to these criteria, PFIs must adhere to other requirements as specified in the project agreement.

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

## ADVANCE RECONCILIATION WORKSHEET

	PMU Request from Previous Allocation (USD)	Liquidated by MOF (USD Equivalent)	Balance from Last Allocation (USD Equivalent)	Banks' Requests for this Allocation (USD)	PMU Request for this Allocation (USD)	ADB Disbursement (USD)
	<i>A</i>	<i>B</i>	<i>C</i>	<i>D</i>	<i>E</i>	<i>F</i>
	<i>E from previous Advance Reconciliation Worksheet</i>		<i>A – B</i>	<i>Result of Allocation Request Form</i>	<i>C + D</i>	<i>E – C</i>
<i>Example</i>	3,500,000	3,000,000	500,00	4,000,000	4,500,000	4,000,000
Bank of Ceylon						
Commercial Bank						
DFCC Bank						
Hatton National Bank						
Nation's Trust Bank						
NDB Bank						
People's Bank						
Regional Development Bank						
Sampath Bank						
Seylan Bank						
<b>Total</b>						