
GRANT NUMBER 0574-SRI(EF)
(Additional to Loan 3640-SRI)

GRANT AGREEMENT
(Externally Financed – Women Entrepreneurs Finance Initiative)
(Small and Medium-Sized Enterprises Line of Credit Project – Additional Financing)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 6 JULY 2018

SRI 49273

**GRANT AGREEMENT
(Externally Financed)**

GRANT AGREEMENT dated 6 July 2018 between DEMOCRATIC SOCIALIST
REPUBLIC OF SRI LANKA ("Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) by a loan agreement dated 23 February 2016 between the Recipient and ADB ("Initial Loan Agreement"), ADB provided the Recipient a loan from ADB's ordinary capital resources in an amount of one hundred million Dollars (\$100,000,000) for the purposes of the project described in Section 3.01 of the Initial Loan Agreement;

(B) by a loan agreement dated 16 February 2018 between the Recipient and ADB ("Additional Financing Loan Agreement"), ADB provided the Recipient a loan from ADB's ordinary capital resources in an amount of seventy-five million Dollars (\$75,000,000) for the purposes of the project described in Section 3.01 of the Additional Financing Loan Agreement;

(C) the Recipient has applied to the Women Entrepreneurs Finance Initiative ("We-Fi") for a grant to be administered by ADB for the purposes of financing the project described in Section 3.01 of this Grant Agreement (the "Grant Project");

(D) the Grant Project will be carried out by participating financial institutions ("PFIs") and for this purpose the Recipient will make available to PFIs the proceeds of the grant provided for herein upon terms and conditions satisfactory to ADB; and

(E) ADB has agreed to make the proceeds of the grant from We-Fi available to the Recipient upon the terms and conditions set forth herein and in the Grant Project Agreements between ADB and the PFIs;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Grant Regulations; Definitions

Section 1.01. All provisions of the Externally Financed Grant Regulations of ADB, dated 1 January 2017 ("Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(m) is deleted and the following is substituted therefor:

"Project Agreement" means each Grant Project Agreement between ADB and a PFI.

- (b) The term "Project Executing Agency" appearing in Sections 6.04(a), 8.01(c), 8.01(e), 8.01(i), 9.01(b) and 9.02(b) of the Grant Regulations shall be substituted by the term "PFI".

Section 1.02. Wherever used in this Grant Agreement, the several terms defined in the Grant Regulations and the Additional Financing Loan Agreement have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Grant Agreement have the following meanings:

- (a) "Associated Training" means any training provided to existing and potential women entrepreneurs under ADB Technical Assistance Cluster Development and Small and Medium-Sized Enterprise Finance Innovations;
- (b) "Principal Paydown" means the paydown of the principal of the Subloans to Qualified Grant Enterprise;
- (c) "Project Executing Agency" for the purposes of, and within the meaning of, the Grant Regulations means the Ministry of Finance and Mass Media of the Recipient or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Grant Project;
- (d) "Qualified Grant Enterprise" means an enterprise, which satisfies the eligibility criteria set out in paragraph 10 of Schedule 1 to this Grant Agreement;
- (e) "Qualified Grant Subproject" means Principal Paydown which satisfies the eligibility criteria set out in paragraph 11 of Schedule 1 to this Grant Agreement;
- (f) "Subgrant" means a grant provided, or proposed to be provided, by a PFI out of the proceeds of the Grant to a Qualified Grant Enterprise for a Qualified Grant Subproject; and
- (g) "Subsidiary Grant Agreement" means each agreement between the Recipient and a PFI as referred to in Section 3.02 of this Grant Agreement.

ARTICLE II

The Grant

Section 2.01. ADB agrees to make available to the Recipient a grant from We-Fi in the amount of nine million five hundred thousand Dollars (\$9,500,000).

ARTICLE III

Description of Grant Project; Use of Proceeds of the Grant

Section 3.01. The Grant Project for which the Grant is provided is the paying down of principals of Subloans by making Subgrants to Qualified Grant Enterprises for Qualified Grant Subprojects in accordance with this Grant Agreement and the Grant Project Agreements.

Section 3.02. The Recipient shall provide the SLR equivalent of the Grant proceeds to PFIs under a Subsidiary Grant Agreement with each PFI on terms and conditions satisfactory to ADB. Such Subsidiary Grant Agreement shall be without prejudice to, and without limitation on, the obligations of the Recipient under this Grant Agreement.

Section 3.03. Except as ADB may otherwise agree, the proceeds of the Grant shall be used only for making Subgrants to Qualified Grant Enterprises for Qualified Grant Subprojects and shall be applied exclusively to the Principal Paydowns.

Section 3.04. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 31 December 2019 or such other date as may from time to time be agreed between the Recipient and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Recipient shall cause the PFIs to carry out the Grant Project with due diligence and efficiency and in conformity with sound applicable technical, financial, business and development practices.

(b) In the carrying out of the Grant Project, the Recipient shall perform, or cause to be performed, all the obligations set forth in Schedule 1 to this Grant Agreement and the Grant Project Agreements.

Section 4.02. In addition to the reports and information set forth in Section 6.04 of the Grant Regulations, the Recipient shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (a) the Qualified Grant Enterprises, the Qualified Grant Subprojects and the Subgrants; and (b) the administration, operations and financial condition of the PFIs.

Section 4.03. ADB shall disclose the annual audited financial statements for the Grant Project and the opinion of the auditors on the financial statements within 14 days of the date of ADB's confirmation of their acceptability by posting them on ADB's website.

Section 4.04. The Recipient shall enable ADB's representatives to inspect any Qualified Grant Enterprise, any Qualified Grant Subproject, the Principal

Paydowns, the Goods and Works, and any relevant records and documents maintained by the PFIs.

Section 4.05. The Recipient shall promptly take all action, including the provision of funds, facilities, services and other resources, which shall be necessary on its part to enable the PFIs to perform their obligations under the Grant Project Agreements, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.06. (a) The Recipient shall exercise its rights under the Subsidiary Grant Agreements in such a manner as to protect the interests of the Recipient and ADB and to accomplish the purposes of the Grant.

(b) No rights or obligations under any Subsidiary Grant Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of ADB.

Section 4.07. The Recipient acknowledges and agrees that this Grant Agreement is entered into by ADB, not in its individual capacity, but as grant administrator for We-Fi. Accordingly, the Recipient agrees that (a) it may only withdraw Grant proceeds to the extent that ADB has received proceeds for the Grant from We-Fi and such proceeds have not been suspended or cancelled in whole or in part by We-Fi pursuant to the applicable provisions of We-Fi; and (b) that ADB does not assume any obligations or responsibilities of We-Fi in respect of the Grant Project or the Grant other than those set out in this Grant Agreement.

ARTICLE V

Effectiveness

Section 5.01. The following is specified as an additional condition to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations: the Recipient shall have provided to ADB a topic, acceptable to ADB, for the white paper to be prepared under ADB's technical assistance attached to the Project.

Section 5.02. A date 90 days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

ARTICLE VI

Miscellaneous

Section 6.01. Each of the Secretary of the Ministry of Finance and Mass Media, the Deputy Secretary to the Treasury and the Director General of the Department of External Resources, of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

For the Recipient

Secretary
Ministry of Finance and Mass Media
Colombo 1
Sri Lanka

cc: Deputy Secretary to the Treasury
Director General, Department of External Resources

Facsimile Numbers:

+94 11 248-4563
+94 11 244-7633

For ADB

Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

+63 2 636-2444
+63 2 636-2337.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Grant Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

DEMOCRATIC SOCIALIST REPUBLIC
OF SRI LANKA

By



R.H.S. SAMARATUNGA
Secretary
Ministry of Finance and
Mass Media

ASIAN DEVELOPMENT BANK

By



SRI WIDOWATI
Country Director
Sri Lanka Resident Mission

SCHEDULE 1

Execution of Grant Project; Financial Matters

Implementation Arrangements

1. The Recipient, through the Ministry of Finance and Mass Media, and the PFIs shall ensure that the Grant Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Recipient and ADB. In the event of any discrepancy between the PAM and this Grant Agreement and the Grant Project Agreements, the provisions of this Grant Agreement and the Grant Project Agreements shall prevail.

Condition for Withdrawal and Disbursement Procedures

2. No withdrawal shall be made from the Grant Account for a PFI until the PFI has provided ADB with a legal opinion specifying that the Grant 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.

3. The Grant proceeds shall be allocated in three funding rounds. The PFIs shall submit their allocation requests on 30 May 2018, 28 September 2018, and 29 March 2019 or as otherwise indicated by ADB. Subloans made respectively as of 1 April 2018, 1 October 2018, and 1 April 2019 will be eligible. The Grant proceeds will be available respectively from approximately 30 June 2018, 4 January 2019, and 30 June 2019. Approximately \$3.17 million will be available at each allocation. If the Grant proceeds are not fully allocated, they may be made available at the subsequent allocation.

4. When submitting an allocation request, each PFI must request a minimum of \$10,000 equivalent. Each PFI may request the maximum available based on the lower of the pro rata distribution or 20% of a PFI's allocation under the project as described in Section 3.01 of the Initial Loan Agreement and Section 3.01 of the Additional Financing Loan Agreement.

5. Except as ADB may otherwise agree, the Grant proceeds shall be disbursed in accordance with the Loan Disbursement Handbook. ADB shall finance 100% of the expenditures claimed under each Subgrant.

6. Prior to the last allocation, the Steering Committee and ADB may claw back any undisbursed allocation from any PFI and reallocate to another PFI.

7. Following the Grant Closing Date, any undisbursed Grant proceeds shall be reallocated, in order of priority, to (i) another SME project in the Recipient, (ii) another SME project in another ADB developing member country, and/or (iii) the PFIs for blending with their own funds.

PFI Eligibility Criteria

8. The Recipient shall ensure that each PFI satisfy and maintain the following eligibility criteria:

- (a) confirmation from the CBSL that the PFI is in good regulatory standing, including its corporate governance, reputation/integrity, and compliance with CBSL's combating money laundering and financing of terrorism requirements;
- (b) ADB's financial and integrity due diligence requirements;
- (c) compliance with CBSL's regulatory capital minimum as of the PFI's last audited financial statements;
- (d) a maximum net nonperforming loan ratio of 5%, or such ratio as determined by the Steering Committee and ADB from time to time, as of the PFI's last audited financial statements;
- (e) the PFI was profitable as of its last audited financial statements;
- (f) a minimum (tangible) equity of at least SLRs 1 billion as of the PFI's last audited financial statements;
- (g) If the PFI has an outstanding disbursed loan from ADB, it is eligible for the Grant Project as long as it does not prepay the existing ADB loan (for the avoidance of doubt, such pre-payment is a breach of the PFI eligibility criteria and ADB retains the right to discontinue with the PFI for the Grant Project);
- (h) the PFI shall maintain a management information system that can provide quarterly reports on Subgrant disbursements, repayment performance, lending spreads, and Qualified Grant Enterprises- and Qualified Grant Subprojects-related information;
- (i) the PFI shall consent that ADB can publicly disclose the results of disbursements, repayment performance, lending spreads, lending to Qualified Grant Enterprises, and any other such information on the use of Subgrants;
- (j) the PFI shall have disbursed at least 80% of the Grant and 80% of the Loan proceeds allocated to it under a previous allocation as of 1 month prior to the date of the next allocation;
- (k) the PFI shall have provided to the Project Executing Agency and the relevant Qualified Grant Enterprise (A) substantiation that the Principal Paydown has been applied to the relevant Subloan and (B) the revised Subloan repayment schedule, both within 10 working days of the Principal Paydown; and
- (l) the PFI shall have completed an ADB-approved gender gap assessment and have had its Board of Directors endorse, by 28 February 2019 or such other date as may be agreed by ADB in its sole discretion, new gender-responsive policies and practices that are based on the gender gap assessment.

9. ADB shall enter into a Grant Project Agreement with each PFI. Such Grant Project Agreement is based on a standard form developed by ADB for the Grant Project. ADB in consultation with the Steering Committee may invite additional prospective PFIs to participate in the Grant Project subject to an assessment of the PFIs' compliance with the eligibility criteria described in paragraph 8 of this Schedule. Grant Project Agreements shall be entered into with such PFIs.

Qualified Grant Enterprises

10. The Recipient shall cause the PFIs to ensure that each Qualified Grant Enterprise:

- (a) meets all of the criteria for a Qualified Enterprise under paragraph 8 of Schedule 2 to the Loan Agreement; and
- (b) shall have at least 51 % of the enterprise ownership controlled by women, or meet all of the following three criteria:
 - (i) at least 20% of the enterprise ownership is controlled by women;
 - (ii) a woman is either the chief executive officer (the senior most manager) or the chief operations officer (the second most senior manager); and
 - (iii) at least 30% of the board members are women, where a board exists; and
- (c) shall not use the proceeds of the Subgrant and Subloan for the refinancing of any existing loan.

Qualified Grant Subproject

11. The Recipient shall cause the PFIs to ensure that each Qualified Grant Subproject is for a Subloan whose principal is at least Rs750,000.

Subgrants

12. The Recipient shall cause the PFIs to ensure that the Subgrants shall be provided only for:

- (a) Principal Paydowns to Qualified Grant Enterprises;
- (b) financing of an additional 10% of the Subloans to Qualified Grant Enterprises which complete the Associated Training; and
- (c) financing of an additional 5% of the PFI's Subloans to Qualified Grant Enterprises, if the Subloan is for economic activity in the areas within the Uva Province, Sabaragamuwa Province, Northern Province, or Eastern Province.

13. The Recipient shall cause the PFIs to ensure that the cumulative maximum amount for each Subgrant for a Qualified Grant Enterprise or a woman entrepreneur if owning 51% or more of the shares of multiple Qualified Grant Enterprises is SLRs 17.5 million if meeting the criteria of paragraph 12 (a), (b) and (c); SLRs 15 million if meeting the criteria of paragraph 12 (a) and (b); SLRs 12.5 million if meeting the criteria of paragraph 12 (a) and (c); and SLRs 10 million otherwise.

14. If a PFI receives a request for a Principal Paydown of 10% following the successful completion of the Associated Training, but its allocation of Grant proceeds is exhausted, the relevant PFI may provide to the Qualified Grant Enterprise, subject to Grant fund availability, the Principal Paydown from any unallocated funds.

Gender and Development

15. The Recipient, through the Ministry of Finance and Mass Media, shall ensure that (a) the gender action plan is implemented in accordance with its terms; (b) adequate resources are allocated for implementation of the gender action plan; and (c) progress on implementation of the gender action plan, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB.

Financial Covenant

16. The Recipient, through the Ministry of Finance and Mass Media, shall cause the PFIs to ensure that the PFIs' annual audited financial statements, or if not addressed therein the auditors' opinion(s) for the PFIs' annual audited financial statements, address the financial covenants in subparagraphs 8(c), (d), (e) and (f) of this Schedule.

Governance and Anticorruption

17. The Recipient and the PFIs shall (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Grant Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

Combating Money Laundering and Financing of Terrorism

18. The Recipient, through the Ministry of Finance and Mass Media, shall ensure that the PFIs:

- (a) comply with applicable laws and regulations of the Recipient on combating money laundering and financing of terrorism and that Grant proceeds are not used, directly or indirectly, in money laundering or financing of terrorism;
- (b) formulate and implement internal control procedures, including customer due diligence procedures, to prevent violation of subparagraph (a) hereinabove; and

- (c) promptly inform the Recipient and ADB if there is any violation or potential violation of subparagraph (a) hereinabove. In the event that ADB informs any PFI of its concern that there has been such an alleged violation, such PFI shall: (i) cooperate in good faith with ADB and its representatives so that ADB can determine whether such a violation has occurred; (ii) respond promptly and in reasonable detail to any query from ADB; and (iii) furnish documentary support for such response upon ADB's request.