

# Project Administration Manual

Project Number: 49273-003

Loan Number: 3370

Technical Assistance Number: 9080

June 2018

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

## **ABBREVIATIONS**

ADB	–	Asian Development Bank
BPO	–	business process outsourcing
DMF	–	design and monitoring framework
EMS	–	environmental management system
ICT	–	information and communication technology
MOFMM	–	Ministry of Finance and Mass Media
PFI	–	participating financial institution
PMU	–	project monitoring unit
PPMS	–	project performance management system
SMEs	–	small and medium-sized enterprises
SOE	–	statement of expenditures
TA	–	technical assistance
We-Fi	–	Women Entrepreneurs Finance Initiative

## **CONTENTS**

I.	PROJECT DESCRIPTION	1
II.	IMPLEMENTATION PLANS	3
A.	Project Readiness Activities	3
B.	Overall Project and Implementation Plan	4
III.	PROJECT MANAGEMENT ARRANGEMENTS	5
A.	Project Implementation Organizations: Roles and Responsibilities	5
B.	Key Persons Involved in Implementation	7
C.	Project Organization Structure	8
IV.	COSTS AND FINANCING	9
A.	Allocation of Loan Proceeds	9
B.	Disbursement S-Curve	10
C.	Fund Flow Diagram for the ADB Credit Facility	12
D.	Fund Flow Diagram for the Women Entrepreneurs Finance Initiative (We-Fi) Grant	12
V.	FINANCIAL MANAGEMENT	13
A.	Financial Management Assessment	13
B.	Disbursement	14
C.	Accounting and Auditing Arrangements	15
VI.	PROCUREMENT AND CONSULTING SERVICES	17
A.	Advance Contracting and Retroactive Financing	17
B.	Procurement of Goods, Works, and Consulting Services	17
C.	Procurement Plan	17
VII.	SAFEGUARDS	17
VIII.	GENDER AND SOCIAL DIMENSIONS	18
IX.	PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION	21
A.	Project Design and Monitoring Framework	21
B.	Monitoring	21
C.	Evaluation	22
D.	Reporting	24
E.	Stakeholder Communication Strategy	25
X.	ANTICORRUPTION POLICY	25
XI.	ACCOUNTABILITY MECHANISM	26
XII.	RECORD OF PAM CHANGES	26
	Appendix 1: Allocation Request Form	26
	Appendix 2: Allocation Request Form We-Fi Grant	27
	Appendix 3: Participating Financial Institution Criteria	28
	Appendix 4: Subloan and Subborrower Criteria	29
	Appendix 5: Advance Reconciliation Worksheet	31
	Appendix 6: Advance Reconciliation Worksheet We-Fi Grant	32

### **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 (MOFMM) and participating financial institutions (PFIs) 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 PFIs 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, attached technical assistance (TA) provided by the Japan Fund for Poverty Reduction, and grant and TA funded by the Women Entrepreneurs Finance Initiative (We-Fi) are aimed at improving SME's access to bank financing in the Democratic Socialist Republic of Sri Lanka.

2. SMEs are a source of economic growth and employment. Yet, SMEs, in particular women-led SMEs often struggle to access bank loans because banks typically consider SME loans as riskier and more expensive to administer. The project, TA, and grant will address this issue from 2 angles. First, the credit line and grant will use financial incentives to encourage banks to lend to SMEs, particularly those that struggle to access financing. Second, the TA will strengthen the supply of creditworthy SMEs through support to 3 of Sri Lanka's most dynamic industry clusters and to women entrepreneurs.

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

4. **Fund allocation process.** The original \$100 million credit line was fully disbursed in January 2018. The additional \$75 million from the line of credit will be allocated among participating financial institutions (PFIs) in 3 increments of \$25 million.

5. In addition, \$10.165 million<sup>3</sup> from the We-Fi grant will be available together with the credit line for principal paydown support for individual loans undertaken by women-led SMEs, made available on the dates of the current allocation process, to qualified women-led SMEs. \$3.17 million will be available for allocation in the fifth funding round (March 2018–August 2018), at least \$3.17 million in the sixth funding round (September 2018–February 2019), and at least \$3.17 million in the seventh funding round (March 2019–September 2019).

**Table 1: Schedule of Fund Allocation**

Item	Fifth Funding Round (March 2018)	Sixth Funding Round (September 2018)	Seventh Funding Round (March 2019)
Available credit line	\$25.00 million	\$25.00 million	\$25.00 million
Available We-Fi grant	\$3.17 million <sup>a</sup>	\$3.17 million	\$3.17 million
<b>Total</b>	<b>\$28.17 million</b>	<b>\$28.17 million</b>	<b>\$28.17 million</b>

We-Fi = Women Entrepreneurs Finance Initiative.

<sup>a</sup> For the fifth round of funding, the grant reimbursement will be available on 30 June 2018 contingent on grant effectiveness.

Source: Asian Development Bank.

6. Eligible PFIs will request the amount that they would like allocated from ADB's credit line and We-Fi funded grant. The request (Appendices 1 and 2) should include both ADB's line of

<sup>1</sup> Government of Sri Lanka. 2017. *Vision 2025: A Country Enriched*. Colombo.

<sup>2</sup> ADB. 2017. *Report and Recommendation of the President to the Board of Directors: Additional Financing: Small and Medium-Sized Enterprises Line of Credit Project*. Manila.

<sup>3</sup> This amount can be broken down into \$9.5 million to be provided as grant for principal paydown for eligible women-led SMEs, and \$665,000 in administrative fee to ADB.

credit and the We-Fi funded grant and be submitted no later than tentatively (i) 30 May 2018 for the fifth funding round, (ii) 28 September 2018 for the sixth funding round, and (iii) 29 March 2019 for the seventh. For the fifth round of funding, requests made specifically for We-Fi grant funding for eligible women-led SME subborrowers can be made up until tentatively 30 May 2018. PFI eligibility criteria are specified in Appendix 3. 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 of credit line has been disbursed to eligible subborrowers, and 80% of the previous allocation of We-Fi funded grant has been disbursed to eligible women-led subborrowers.

7. After completion of the seventh funding round, ADB will decide, in consultation with the government, on the use of the We-Fi-funded grant funds remaining under the principal paydown component. The priority for any remaining funds is (i) another SME project in Sri Lanka, (ii) an SME project in another ADB developing member country, and (iii) an extension of the existing We-Fi grant project with the grant to be blended with the banks own funding.

8. Compliance with the disbursement requirements will be assessed 1 month prior to the next allocation. Specifically:

- (i) For the credit line, 20% of the number of subloans must be lent to subborrowers that have not previously borrowed from a licensed commercial or specialized bank;
- (ii) For the credit line, 20% of the number of subloans must be lent to subborrowers that are led by women;<sup>4</sup>
- (iii) For the credit line, 70% of the total subloan amount must cumulatively be lent to targeted SMEs, including SMEs which are either (a) located outside Colombo district, (b) borrowing for working capital against which fixed or financial assets are not pledged, (c) led by women, or (d) not previously borrowed from a licensed commercial or specialized bank;
- (iv) 80% of the credit line and 80% of the grant from the previous allocation must be disbursed.

9. Women-led SMEs that meet both criteria (i) and (ii) below are eligible for a 20% principal paydown funded by the We-Fi grant:

- (i) 51% of enterprise ownership is controlled by women or meets the below 3 criteria:
  - (a) At least 20% of enterprise ownership is controlled by women;
  - (b) A woman is either the chief executive officer (i.e., senior most manager) or chief operations officer (i.e., second most senior manager); and
  - (c) 30% of board members are women, where a board exists.
- (ii) The loan principal is at least Rs750,000.<sup>5</sup>

10. In addition, if the women-led SME borrower is accessing finance for economic activity in Uva, Sabaragamuwa, Northern or Eastern provinces, an additional 5% of principal paydown is provided.

11. Furthermore, if the women-led SME borrower completes the associated training and presents the certificate of completion to the PFI, the subborrower is eligible for an additional

---

<sup>4</sup> Defined as (i) 51% owned by women, (ii) at least 60% of senior managers are women, or (iii) at least 50% of board members are women.

<sup>5</sup> The exchange rate is fixed at Rs150 unless otherwise adjusted by the SME Steering Committee.

principal paydown of 10%.<sup>6</sup> If women-led SME borrowers are granted principal paydown support in one allocation round and then subsequently complete the associated training, the additional principal paydown will be taken from the PFI's We-Fi allocation. However, if the PFI has already committed its grant allocation, the principal paydown will be provided from the larger We-Fi grant funding if resources remain.

12. The detailed and updated eligibility criteria for subborrowers including the definition of women-led are in Appendix 4.

## 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
Stakeholder consultation undertaken for We-Fi grant project								▲	▲			ADB
We-Fi grant project implementation arrangements finalized									▲	▲		ADB
First grant allocation										▲		MOF, PFIs
ADB President approval											▲	ADB
Grant agreement signing											▲	ADB, MOF, PFIs
Government legal opinion on grant											▲	MOF, MOJ
Signing of amendments to project agreements											▲	MOF, PFIs
Grant effectiveness											▲	MOF, ADB

<sup>6</sup> Women entrepreneurs do not have to be qualified for grant funding or credit line to qualify for training.

Indicative Activities	2017					2018						Responsible Unit
	08	09	10	11	12	01	02	03	04	05	06	
First disbursement											▲	ADB, MOF

ADB = Asian Development Bank, MOF = Ministry of Finance and Mass Media, MOJ = Ministry of Justice, PFIs = participating financial institutions, We-Fi = Women Entrepreneurs Finance Initiative.

Source: Asian Development Bank.



## B. Overall Project and Implementation Plan

13. The scheduled implementation period, including the original loan and additional financing as well as the grant, is 5 years (March 2016–February 2021).

Activity	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4
A. ADB Internal Processing Schedule																																																							
1 SRM																																																							
2 Loan Negotiations																																																							
3 Expected Loan Approval																																																							
4 Loan and Project Agreements Signing																																																							
5 Loan Effectiveness																																																							
6 Grant Negotiations																																																							
7 Expected Grant Approval																																																							
8 Grant Agreement Signing																																																							
9 Grant Effectiveness																																																							
B. Project Preparation																																																							
1 Establish project implementation arrangements																																																							
2 Acceptable project management unit in each PFI formed																																																							
3 Signing of the subsidiary loan agreements between MOF and PFIs																																																							
4 Recruitment of TA consultants																																																							
5 Preparation of formants and benchmarks for performance management system																																																							
6 Signing of the grant agreement between MOF and PFIs																																																							
7 Recruitment of TA consultants funded by We-Fi																																																							
C. Project Review w/ Administration																																																							
1 Allocation																																																							
2 Monthly Progress Report																																																							
3 Independent Third Party Quarterly Report																																																							
4 Grant Consultants' Quarterly Report																																																							
4 Semiannual Report																																																							
5 Disbursement																																																							
6 Preparation of annual PMU report																																																							
7 Annual and Midterm review by ADB																																																							
8 Project Completion Report																																																							
9 Impact Evaluation Report																																																							
D. DMF	Please refer to Appendix 1 Design and Monitoring Framework in the Additional Financing Report to the President.																																																						

ADB = Asian Development Bank, MOF = Ministry of Finance and Mass Media, PFIs = participating financial institutions, PMU = project management unit, SRM = staff review meeting, TA = technical assistance, We-Fi = Women Entrepreneurs Finance Initiative.

Source: Asian Development Bank.

### III. PROJECT MANAGEMENT ARRANGEMENTS

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

##### 1. Steering Committee

14. A steering committee will oversee project implementation. The members 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.
15. The secretariat steering committee will be performed by the project management unit (PMU) of Ministry of Finance and Mass Media (MOFMM). Although PFIs will not be members of the steering committee, the steering committee will periodically seek their feedback.
16. The principal function of the steering committee 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.
17. The steering committee will convene semiannually during the first 12 months of implementation and thereafter as needed.
18. The steering committee 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

19. The PMU has already been established, and there are currently 9 staff.
20. The position of project director will be assigned to the PMU head. The project director 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.
21. 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 (PCR).
- (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 (MOFMM)	<ul style="list-style-type: none"> <li>• Acts as executing agency for the loan, technical assistance (TA), and grant</li> <li>• Responsible for executing the subsidiary loan agreements with the participating financial institutions</li> </ul>
Department of Development Finance	<ul style="list-style-type: none"> <li>• Acts as the implementing agency for the loan, for component 1 of the Japan Fund for Poverty Reduction-funded component of the piggybacked TA, We-Fi funded grant, and all We-Fi funded TA components except for the training and online platform components.</li> <li>• Leads the project management unit (PMU)</li> <li>• Approves PFI's withdrawal requests to include verifying compliance with the onlending requirements for targeted small and medium-sized enterprises (SMEs) and, where appropriate, preparation of initial environmental examination</li> <li>• Prepares a project completion report (PCR)</li> </ul>
National Enterprise Development Authority (NEDA)	<ul style="list-style-type: none"> <li>• Acts as the implementing agency for the training for potential and existing women entrepreneurs, and online learning and mentoring platform funded by We-Fi.</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 with ADB and other steering committee members through appropriate channels of any PFI covenant breaches particularly where relating to corporate governance, reputation and/or 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 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 30 days of the reporting period end</li> </ul>

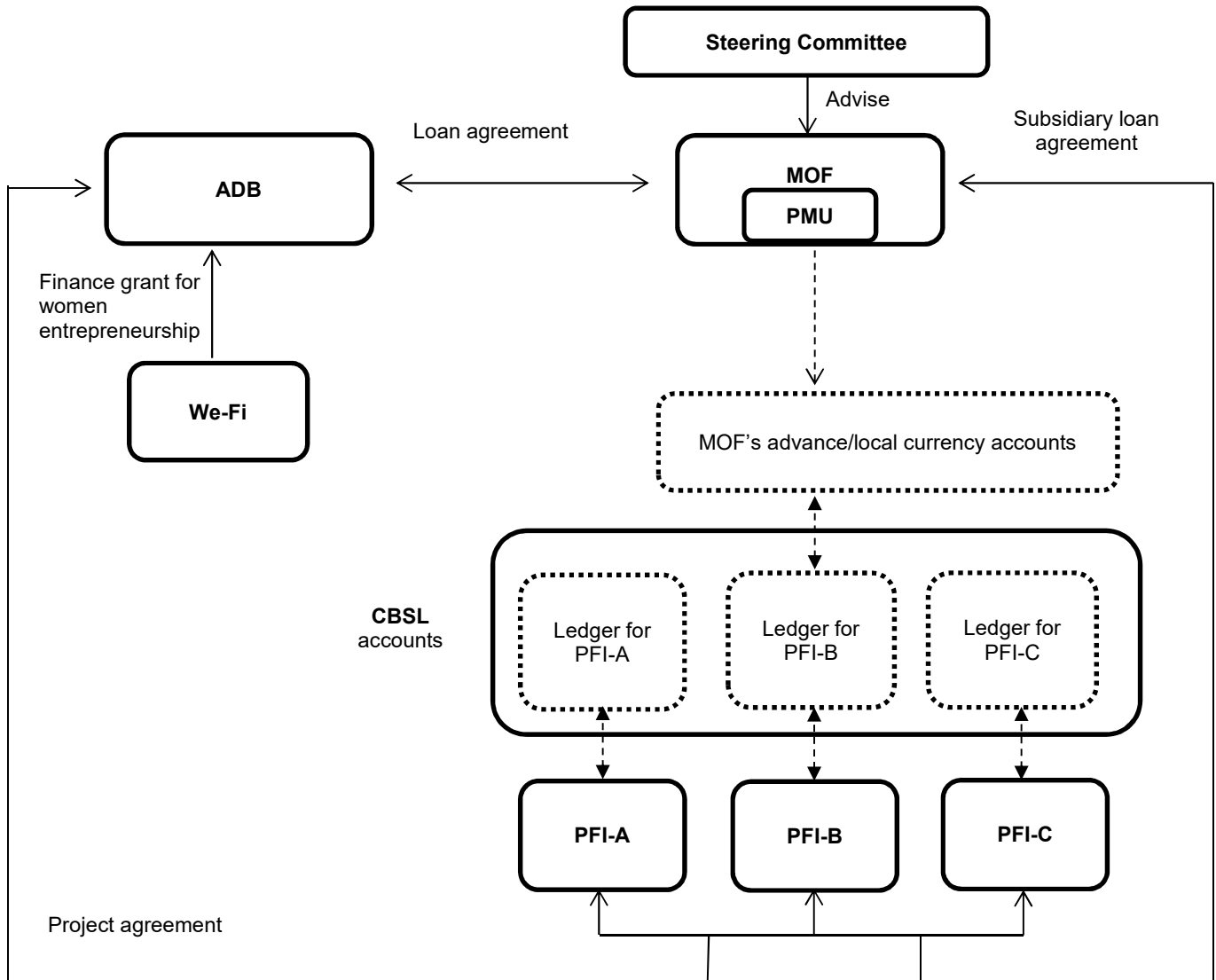
Project Implementation Organizations	Management Roles and Responsibilities
	<ul style="list-style-type: none"> <li>• Submit to ADB annual safeguards monitoring report</li> <li>• Respond to other information requests as required</li> </ul>
ADB	<ul style="list-style-type: none"> <li>• Prepare a PCR within 12–24 months from project closing date</li> <li>• Provide overall project coordination including reviewing and approving submission of withdrawal applications to ADB.</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> <li>• Implement Women Entrepreneurs Finance Initiative grant</li> </ul>

Source: Asian Development Bank

## B. Key Persons Involved in Implementation

<b>Executing Agency</b> Ministry of Finance and Mass Media	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>
<b>Asian Development Bank</b> Public Management, Financial Sector, and Trade Division (SAPF) South Asia Department (SARD)	Mr. Bruno Carrasco Director Fax No.: (63-2) 636-2337 E-mail: <a href="mailto:bcarrasco@adb.org">bcarrasco@adb.org</a>  Mr. Don Lambert Principal Finance Specialist Tel. No.: (63-2) 632-5921 E-mail: <a href="mailto:dlambert@adb.org">dlambert@adb.org</a>

### C. Project Organization Structure



ADB = Asian Development Bank, CBSL = Central Bank of Sri Lanka, MOFMM = Ministry of Finance and Mass Media, PFI = participating financial institution, PMU = project management unit, We-Fi = Women Entrepreneurs Finance Initiative.

Source: Asian Development Bank.

#### IV. COSTS AND FINANCING

22. The current project includes the \$100.0 million original project and \$75.0 million in additional financing. With the proposed ADB-administered We-Fi additional financing of \$10.165, the total project cost is estimated to be \$185.165 million.

**Table 2: Investment and Financing Plan**  
(\$ million)

Source	Current <sup>a</sup>		Additional Financing		Total	
	Amount	Share (%)	Amount	Share (%)	Amount	Share (%)
ADB	0.000	0.0	0.000	0.0	0.000	0.0
OCR (regular loan)	175.000	100.0	0.000	0.0	175.000	94.5
We-Fi: Grant	0.000	0.0	10.165	100.0	10.165	5.5
<b>Total</b>	<b>175.000</b>	<b>100.0</b>	<b>10.165</b>	<b>100.0</b>	<b>185.165</b>	<b>100.0</b>

<sup>a</sup> Refers to the original loan and first round of additional financing.

ADB = Asian Development Bank, JFPR = Japan Fund for Poverty Reduction, OCR = ordinary capital resources, We-Fi = Women Entrepreneurs Finance Initiative

Source: Asian Development Bank.

##### A. Allocation of Loan Proceeds

23. **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>7</sup> a commitment charge of 0.15% per year and such other terms and conditions set forth in the loan agreement.

24. **Relending (government to PFIs).** MOF will relend the ADB loan and the principal paydown support from the We-Fi grant 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>8</sup> The Government of Sri Lanka will bear the foreign exchange risks.

25. **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. For loans that do not qualify for the We-Fi grant, ADB loan will finance 100% of the PFIs' subloans up to the individual transaction ceiling of Rs50 million.<sup>9</sup> For loans that do qualify for the We-Fi grant, the ADB loan will finance the PFIs' subloans

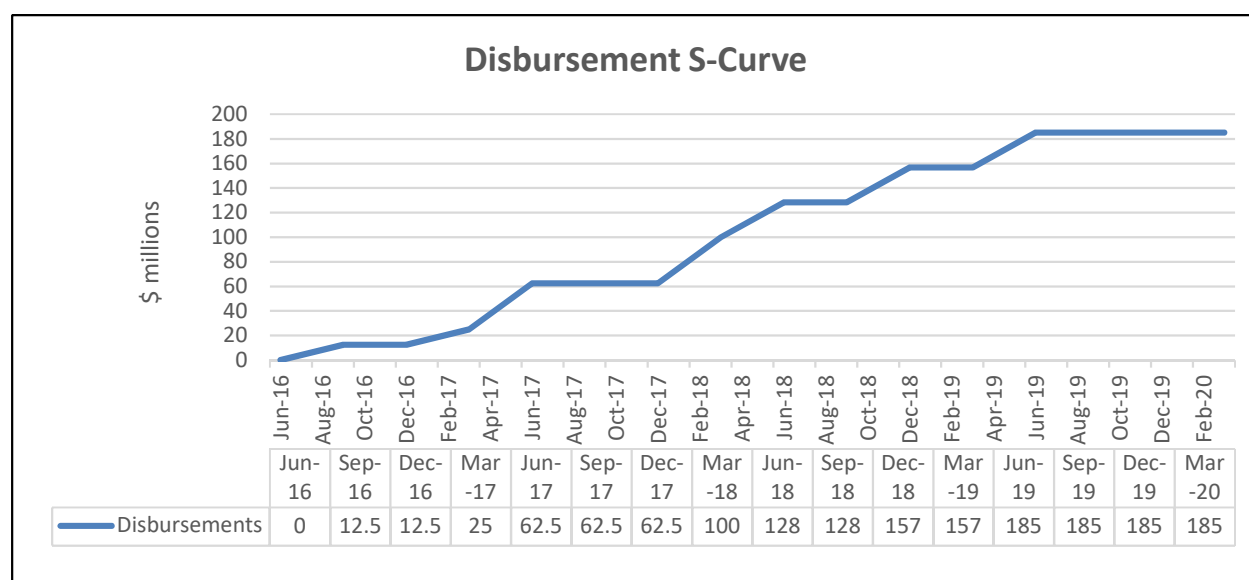
<sup>7</sup> The interest will not include any maturity premium. This is based on the above loan terms and the government's choice of repayment options and dates.

<sup>8</sup> Alternately, the government may elect to return to rates determined through auction.

<sup>9</sup> Furthermore, the Women Entrepreneurship Finance Initiative (We-Fi) grant will finance 20% of principal for individual subloans for eligible women-led small and medium-sized enterprise (SME) borrowers up to the individual transaction ceiling of Rs50 million. In addition, the We-Fi grant will finance an additional 10% of principal for individual subloans for eligible women-led SME borrowers who complete the associated training. An additional 5% principal paydown of individual subloans for eligible women-led SME subborrowers will be financed if the individual transactions are for eligible women-led subborrowers accessing finance for economic activity in the regions within the Uva, Sabaragamuwa, Northern and Eastern provinces. Total We-Fi grant financing for eligible women-led SME borrowers will be capped at a ceiling of Rs17.5 million for each loan transaction subject to the conditions set out.

less the We-Fi grant's principal paydown.<sup>10</sup>

## B. Disbursement S-Curve

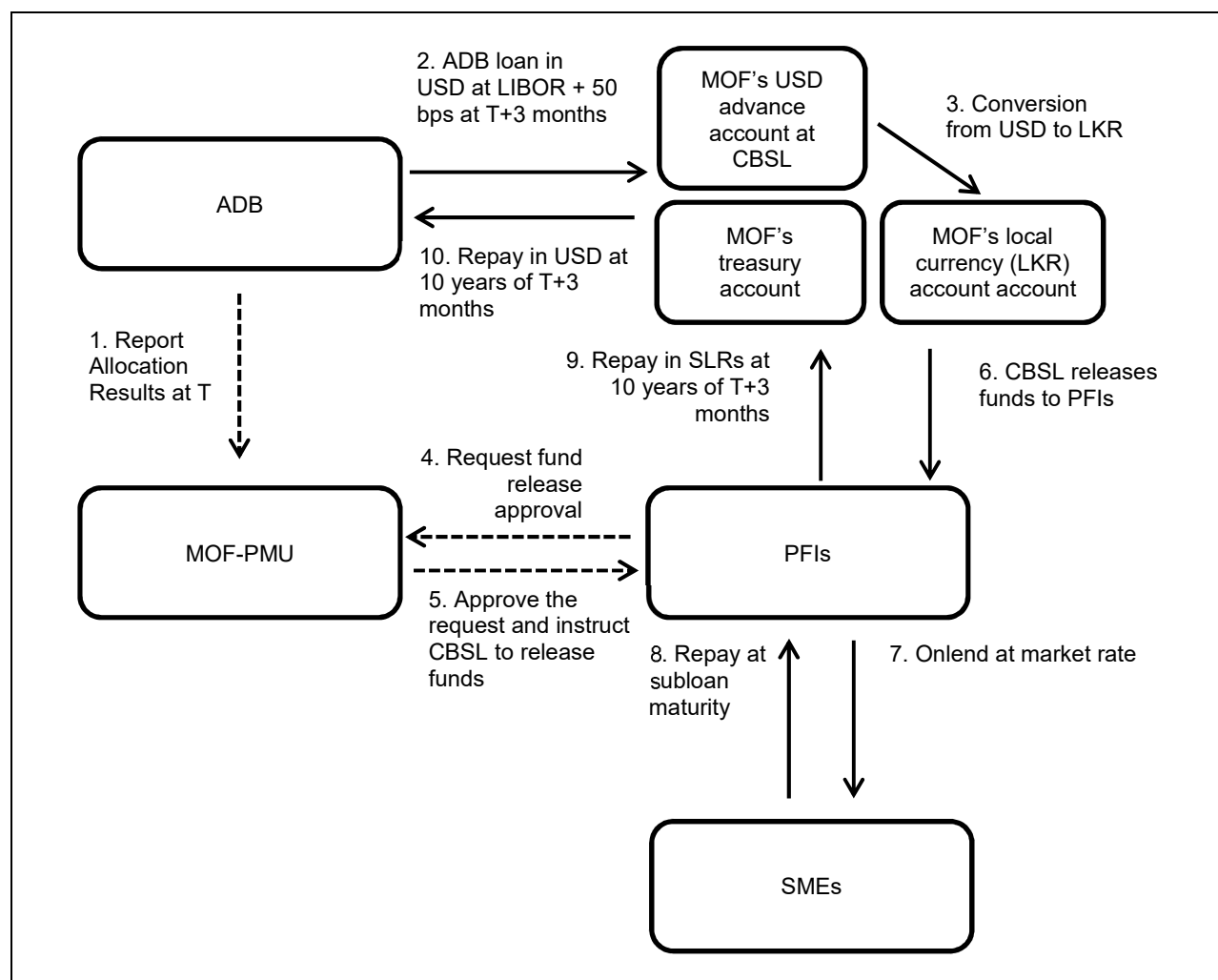


Note: Includes the disbursement of three tranches \$3.17 million in Women Entrepreneurs Finance Initiative (We-Fi) grant funding and 7% in We-Fi administrative fee payable to ADB in June 2018, January 2019 and June 2019.

Source: Asian Development Bank.

<sup>10</sup> Generally, the PMU will approve the subloan and the We-Fi grant principal paydown simultaneously. There will, however, be some situations where the PMU will approve the We-Fi grant after it has already approved the subloan, e.g., a women entrepreneur completes the training earning an additional 10% principal paydown or during the first allocation where the PMU is approving subloans from 1 April 2018 prior to the effectiveness of the We-Fi grant. In these situations, the We-Fi grant will paydown the subloan, and the PFIs may use the prepaid principal in accordance with the Project Agreement.

### C. Fund Flow Diagram for the ADB Credit Facility



ADB = Asian Development Bank, CBSL = Central Bank of Sri Lanka, LKR = Sri Lankan rupees, MOFMM = Ministry of Finance and Mass Media, PFI = participating financial institution, PMU = project management unit, SLRs = Sri Lankan rupees, SME = small and medium-sized enterprise, USD = United States dollar

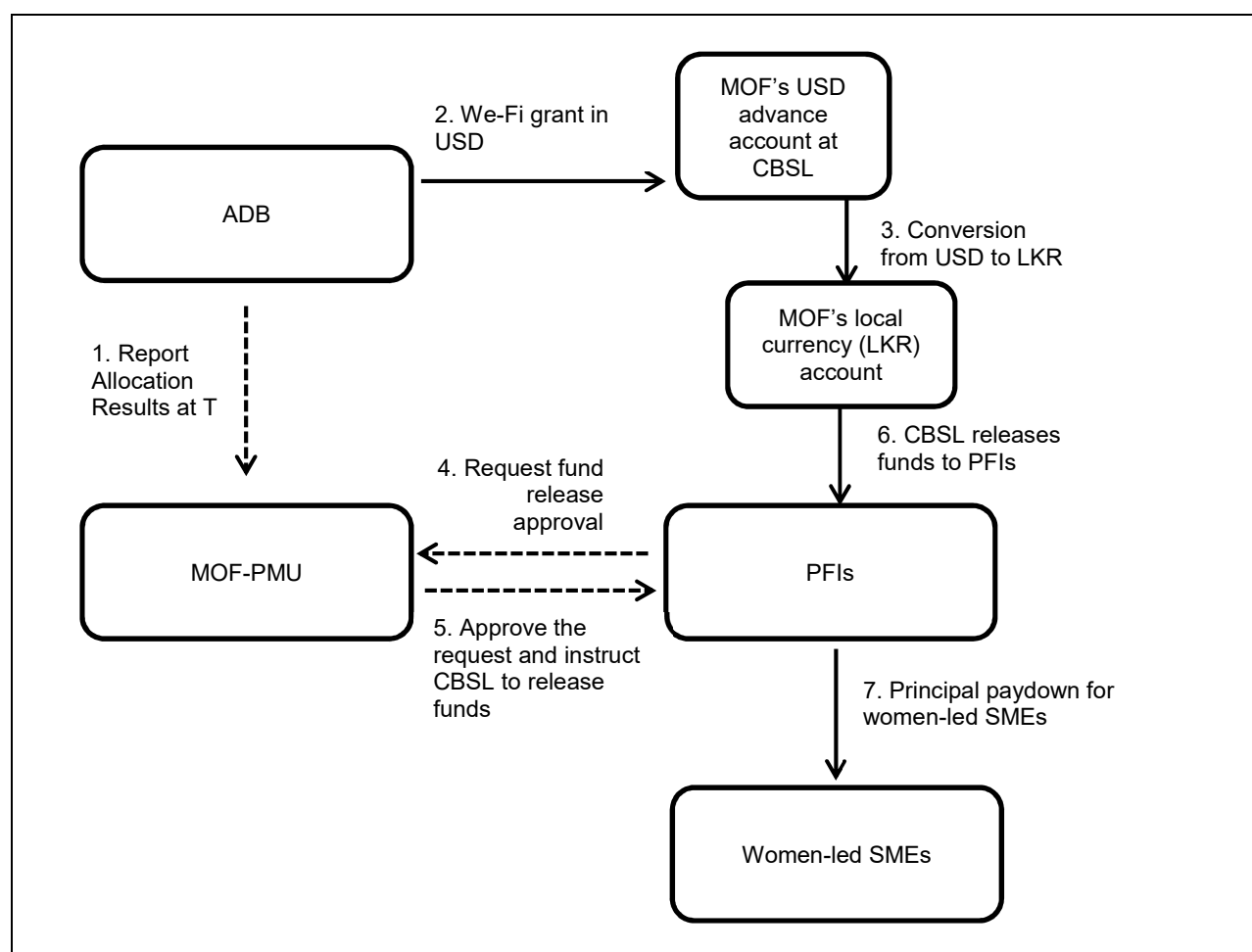
Note:

1. Credit facility includes the original loan and the additional financing.
2. Solid arrows represent fund flows and broken arrows information flows that trigger fund flows.
3. For each individual loan transaction for eligible women-led SME subborrowers, PFIs will be reimbursed for the credit line for the individual transaction loan balance less the amount of grant.

Source: Asian Development Bank.



## D. Fund Flow Diagram for the We-Fi Grant



ADB = Asian Development Bank, CBSL = Central Bank of Sri Lanka, LKR = Sri Lankan rupees, MOFMMA = Ministry of Finance and Mass Media, PFI = participating financial institution, PMU = project management unit, SME = small and medium-sized enterprise, USD = United States dollar, We-Fi = Women Entrepreneurs Finance Initiative.  
 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

26. A financial management assessment 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**

27. **General.** For each allocation for the credit line, 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.

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

29. ADB's advance fund and statement of expenditure (SOE) procedures will be used for disbursements under the loan.<sup>11</sup>

30. **General for the We-Fi grant.** For each allocation for the grant component, no withdrawal shall be made from the MOF's local currency account for a PFI until:

- (i) a grant 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 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.

31. **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>12</sup> PFIs that have not disbursed at least 80% of their allocated funds from ADB's line of credit and 80% of their allocation from the We-Fi grant 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.

32. **Advance account.** MOF will establish and administer 2 separate advance accounts, one

<sup>11</sup> Details of SOE procedures are available in the ADB's Loan Disbursement Handbook (2017).

<sup>12</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.

for the credit facility and one for the We-Fi grant, in US dollars at Central Bank of Sri Lanka 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 separate local currency (LKR) accounts for the credit facility and the We-Fi grant. After the announcement of allocation results for both the credit facility and We-Fi grant, ADB will transfer loan proceeds to MOF's 2 US dollar advance account within upon receipt of a satisfactory and fully documented request. The US dollar proceeds will be converted into Sri Lankan Rupees and deposited in separate LKR local currency accounts as soon as practical. The MOF will maintain separate ledgers, for the credit facility and We-Fi grant, to track how much funding is being held in the local currency account on behalf of each PFI.

33. **Subloan approval by PMU.** To release funds from the separate local currency accounts, PFIs will submit separate withdrawal requests to the PMU.<sup>13</sup>

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

35. **SOE procedures.** SOE procedures will be used for liquidation because the SME subloans, benefitting from both credit facility and grant, 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.

36. **Minimum value per withdrawal application.** The minimum value per withdrawal application for the credit facility is \$200,000 equivalent. The minimum value per withdrawal application for the We-Fi grant should be \$10,000. Individual payments below these threshold amounts should be paid by the MOF and subsequently claimed from the ADB advance account, unless otherwise agreed to with ADB.

37. **Recycling of reflows from SMEs to PFIs.** As subloans from the credit facility 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 Central Bank of Sri Lanka'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 and the government may request the PFIs to provide reports on this relending.

## C. Accounting and Auditing Arrangements

38. MOF will keep separate records of the utilization of funds from the credit facility and the We-Fi grant component 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. Accounting and auditing arrangements will be guided by ADB's Handbook for Borrowers on the Financial Management and Analysis of Projects and relevant Technical Guidance Notes.<sup>14</sup>

<sup>13</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>14</sup> ADB. Financial Management. <https://www.adb.org/about/financial-management-resources>

39. The PFIs will also maintain separate books and accounts relating to all subloans with separate entries for subloans related to the credit facility and subloans related to the We-Fi grant. 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>15</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.

40. 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; (ii) whether or not loan proceeds were used only for the purposes of the project; and (iii) if We-Fi grant proceeds were used only for the purposes of We-Fi eligible subloans and for the conditional amount provided for the purposes of support for principal paydown for each subloan. 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.

41. 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.

42. 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.

43. 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>16</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.

<sup>15</sup> In the case of the state-owned banks, auditors appointed by the auditor general constitute an independent auditor.

<sup>16</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.

44. Public disclosure of the audit opinion and related statements of fund utilization will be guided by ADB's Public Communications Policy (2011).<sup>17</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

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

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

46. 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).

47. ADB will engage the consultants and carry out procurement following the *ADB Procurement Policy* (2017, as amended from time to time) and its associated project administration instructions and/or staff instructions.

### C. Procurement Plan

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

## VII. SAFEGUARDS

49. 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.

50. 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

---

<sup>17</sup> ADB. 2011. *Public Communications Policy 2011*. Manila.

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.

51. In the selection of subprojects, PFIs will ensure that:
  - (i) all subprojects using ADB funds are screened against the Prohibited Investment Activities List 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.

52. 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.

53. 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.

54. 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**

55. Potential gender and social impacts were reviewed. Given the important gender credit gap in Sri Lanka, the project has integrated specific design elements to facilitate women's access to finance and to foster an enabling and empowering business environment. This is reflected in the project documents and is an integral part of the project design which is categorized thematically as gender equity as a theme (GEN). For both the initial project combined with the We-Fi grant, 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 financial resources and services, and will conduct gender analyses of existing public policies and business services with the objective to design tailored and targeted action plans with government partners and participating financial institutions.

56. Initial assessment of the gender situation of SMEs in Sri Lanka was gathered 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 strengthen women's business skills and capacity in the SME sector, and identify entry points for more gender-inclusive SME policies and business practices.
- (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 sector. 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, and rigorous impact evaluation thus aim at among others, gathering these data in project areas.
- (iii) According to the Women's Chamber of Industry and Commerce, women entrepreneurs face 4 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 point to greater action of the government on these issues. This project will seek to assist the government to respond to these issues.

57. A gender action plan was developed during the initial project, which will continue to be implemented with the additional We-Fi activities during the additional financing. The implementation of the initial activities are generally on track. The implementing agencies of the associated TA project and the on-site Project Manager (staff consultant), are responsible for ensuring the effective implementation of the gender action plan and monitoring its progress and completion.

### Gender Action Plan

Activities	Performance Indicators and Targets	Responsible Unit	Timeframe
<b>Output 1. Financing to SMEs through formal intermediaries increased</b>			
1. Monitor PFI's compliance with the project agreement covenants and	1. Participating banks assessed to have complied with the disbursement of \$9.5 million of the We-Fi grant to qualified women-led SMEs in	PMU, PFIs	Q2 2020

Activities	Performance Indicators and Targets	Responsible Unit	Timeframe
disbursement requirements	accordance with the project's disbursement requirements <sup>a</sup> (2015 baseline: 0) 2. At least 250 women-led SMEs accessed We-Fi grant financing by 2020		
<b>Output 3. Capacity of SMEs to access financial services enhanced</b>			
2. Develop new strategy to promote women's entrepreneurship in three targeted clusters	3. Gender responsive value chain analysis of ICT-BPO, fruits and vegetables, and rubber clusters conducted 4. Strategy for expanding and strengthening women entrepreneurship in the 3 clusters developed and approved by EDB	EDB, consultant organization	Completed in Q2 2017
3. Assess the capability development needs of women entrepreneurs, and design training modules on business development and management (including financial literacy) in 3 clusters based on identified capability development needs	5. Training modules designed based on identified capability development needs of women entrepreneurs		
4. Train 750 actual and potential women entrepreneurs in business development and management (including financial literacy)	6. At least 500 actual and potential women entrepreneurs trained in business development and management (including financial literacy) in 3 SME clusters 7. At least 250 existing and potential female entrepreneurs in total trained in business development and management across all SME clusters 8. Business management plans of at least 60% of trained women entrepreneurs passed the standards and/or evaluation of trainers	Consultant organization, EDB	Q4 2019
5. Develop interactive online platform including mobile applications for networking	9. At least 450 women entrepreneurs registered as members of e-platform	Consultant organization	Q2 2020
<b>Output 4. International competitiveness of ICT-BPO cluster strengthened</b>			
6. Identify economic, social, and regulatory barriers that prohibit women from entering and staying in the ICT-BPO cluster, and assess the cost and benefits of statutory prohibitions on female working hours,	10. Barriers to women's participation in the ICT-BPO cluster identified and the costs of statutory prohibitions against women working at night assessed 11. Strategy to attract women to enter and stay in the ICT-BPO cluster developed	Consultant organization, EDB	Completed in 2017



Activities	Performance Indicators and Targets	Responsible Unit	Timeframe
and develop a cluster strategy to attract women workers			
7. Provide support for school career counselors to form strong network with ICT-BPO professionals	12. MOU forged with identified educational institutions 13. Career counselors in at least 5 schools are updated at least quarterly on developments and work opportunities in the ICT-BPO cluster		Q3 2018
8. Launch a career forum for women with interest in the ICT-BPO	14. At least 3 participating schools developed networks with ICT-BPO professionals		
9. Facilitate the participation of at least 500 women in career events in the ICT-BPO	15. At least 500 women attended career forums on ICT-BPO		
<b>Output 5. Gender-inclusive policy and regulatory framework and support enhanced</b>			
10. Conduct a gender assessment of government agencies' support for women entrepreneurship	16. Gender gap assessment of existing policies in at least 3 government agencies completed and action plans to support women entrepreneurs developed	Consultant organization	Q1 2019
11. Train the trainers of government agencies on gender-inclusive entrepreneurship	17. By 2020, at least 25% of government staff surveyed in the 3 agencies completing action plans to support women entrepreneurship report higher levels of awareness of gender-specific challenges in women's entrepreneurship (2015 baseline: not available)		Q3 2019
12. Conduct a gender assessment of CSOs' support for women entrepreneurship	18. Action plans to support women's entrepreneurship developed for at least 2 CSOs		Q1 2019
13. Conduct technical seminars for CSOs	19. Participants of technical seminars report increased knowledge of challenges and policy opportunities for women's entrepreneurship (baseline: 0)		Q3 2019
14. Conduct a gender assessment of the PFIs' practices, products or services, and policies	20. At least seven PFIs' Board of Directors endorsed new gender-responsive business policies and practices by 2020.	Consultant organization, PFIs	Q3 2019
<b>Output 6. Evidence base on women's entrepreneurship to inform future policymaking strengthened</b>			
15. Conduct baseline and endline surveys on women-led SME borrowers benefitting from We-Fi grant	21. One impact evaluation report submitted to the SME Steering Committee	Consultant organization	Q1 2019 (baseline) Q3 2020 (endline)
16. Conduct a policy research on the challenges of women	22. A policy paper on women's entrepreneurship in Sri Lanka		Q1 2010

Activities	Performance Indicators and Targets	Responsible Unit	Timeframe
entrepreneurship in Sri Lanka	endorsed by SME Steering Committee		
17. Disseminate the results of the project through national and regional seminars, and development communications	23. At least 4 success stories of women-led SMEs who have benefitted from We-Fi funding documented 24. 4 national and regional seminars in total held to disseminate the findings on women entrepreneurship development challenges and solution		Q4 2020

BPO = business process outsourcing, CSOs = civil society organizations, EDB = Export Development Board, ICT = information and communication technology, MOU = memorandum of understanding, PFI = participating financial institutions, PMU = project management unit, SME = small and medium-sized enterprises, We-Fi = Women Entrepreneurs Finance Initiative.

<sup>a</sup> The disbursement requirements are (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; (iii) 70% of the total subloan amount must cumulatively be lent to targeted SMEs, including SMEs which are either (a) located outside Colombo district, (b) borrowing for working capital against which fixed or financial assets are not pledged, (c) led by women, or (d) not previously borrowed from a licensed commercial or specialized bank; (iv) 80% of the loan and 80% of the grant from the previous allocation must be disbursed.

Source: Asian Development Bank.

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

### A. Project Design and Monitoring Framework

58. Please refer to Appendix 1 of the Additional Financing Report to the President for the revised project design and monitoring framework (DMF).

### B. Monitoring

#### 1. Project Performance Monitoring

59. 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 DMF 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

60. 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

61. 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>18</sup> and submit this to the management of the PFI and to ADB via the PMU for review and approval.

62. 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>19</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**

63. While Sri Lanka has made steady progress on reducing gender gaps between women and men, gender inequalities persist in key economic domains, which affect women-owned-led SME's access to finance. The unemployment rate of women is significantly higher than that of men. Due to 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, training and business networks, and traditional social norms that further perpetuate these inequalities. The project is categorized as GEN because it is expected to promote a gender-inclusive business environment favorable to facilitating women-owned/led SMEs to access finance and scale-up. The comprehensive range of gender-targeted activities aim to provide a sustainable program of support that will enable women entrepreneurs to start, expand, scale up or modernize their businesses.

64. The project manager based in SLRM will submit quarterly GAP monitoring report to the PMU and ADB. This reporting will include the indicators reported by the GAP.

#### **C. Evaluation**

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

66. Within 9 months (updated) of the final disbursement, the executing agency, implementing agency, and Department of Project Management and Monitoring will submit a PCR to ADB in a form acceptable to ADB.<sup>20</sup> Subsequently, ADB will field a mission to finalize the PCR.

67. Within 12 months of final disbursement, an endline survey for the We-Fi funded grant component on impact evaluation and focus group discussions will commence. The complementary baseline surveys would have been implemented by Q1 2019. 4 months after the endline survey, a final results report and a report on the completed We-Fi grant will be provided including the results of the endline surveys. An impact evaluation report will be submitted to ADB by the consultants.

<sup>18</sup> Sample reporting format provided in the Environmental and Safeguard Monitoring Framework.

<sup>19</sup> Sample reporting format provided in the Environmental and Safeguard Monitoring Framework.

<sup>20</sup> PCR format is available at <http://www.adb.org/sites/default/files/institutional-document/33431/pai-6-07a.pdf>

## D. Reporting

68. The PPMS is ADB's system for setting program objectives, designing projects, and monitoring and evaluating project performance based on the DMF to ensure that goals are consistently being met in an effective and efficient manner.<sup>21</sup> The PPMS will include the following components:

<b>Name of Document</b>	<b>Submitter</b>	<b>Receiver</b>	<b>Timing/Frequency</b>	<b>Purpose</b>
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
GAP implementation report	Consultant through ADB	PMU, ADB	Quarterly; also included in the PCR	Provides an assessment of the progress and accomplishment of gender-related target outputs
Semiannual report <sup>a</sup>	PFI, consultant, PMU	PMU head, ADB	Within 30 days of and as of 28 February and 31 August	Spreadsheet that screens PFIs' eligibility for the next allocation and monitor progress of the project
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 (OM J7)
Annual environmental performance report	Class B/C PFI	PMU, ADB	Within 2 months of the end of fiscal year	Mandatory under ADB policy (OM F1)
PCR	MOF	ADB	Within 9 months of the final allocation	Provides initial assessment of the project vis-à-vis the design monitoring framework
Impact evaluation report	Consultant through ADB	ADB	By December 2020	Provides results of quantitative and qualitative assessment of the socioeconomic impact of the grant project

ADB = Asian Development Bank, GAP = gender action plan, OMF1 = Operations Manual on Financing of Interest and Other Charges During Construction, OM J7 = Operations Manual on Project Financial Reporting and Auditing, PCR = project completion report, PFI = participating financial institution, PMU = project management unit, TA = technical assistance.

<sup>a</sup> The report will include among other items: (i) original principal amount of each small and medium-sized enterprise (SME) loan; (ii) terms including interest rate, tenor, and collateral; (iii) sector of activity; (iv) outstanding principal

<sup>21</sup> Japan International Cooperation Agency, under the ongoing "Financial Sector Project for the Development of Small and Medium-Sized Enterprises" intervention has developed a detailed and comprehensive PPMS which will be used as the basis for the development of ADB's PPMS.

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).

Source: Asian Development Bank.

## **E. Stakeholder Communication Strategy**

69. 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.

70. The key communication objectives of the project are:

- (i) to inform potential and existing targeted SMEs (located outside 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;
- (v) to provide greater public awareness of the contributions of women-led SMEs to the economy and society more broadly; and
- (vi) to create public support for the project.

## **X. ANTICORRUPTION POLICY**

71. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the program.<sup>22</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.

72. 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. Copies of ADB’s Anticorruption Policy and Integrity Principles and Guidelines were given to the government and MOF during loan negotiations.

73. ADB’s Office of Anticorruption and Integrity<sup>23</sup> is the point of contact to report allegations of fraud and corruption among ADB-financed projects or its staff. Anyone coming across evidence of corruption associated with the project may contact below by telephone, facsimile, e-mail, or by mail:

Office of Anticorruption and Integrity  
Asian Development Bank  
6 ADB Avenue, Mandaluyong City

<sup>22</sup> ADB. 2015. *Integrity Principles and Guidelines 2015*. Manila.

<sup>23</sup> ADB’s Integrity Office website is available at <http://www.adb.org/site/integrity/main>

1550 Metro Manila, Philippines  
Telephone: +63 2 632 5004  
Fax: +63 2 636 2152  
E-mail: [integrity@adb.org](mailto:integrity@adb.org) or [anticorruption@adb.org](mailto:anticorruption@adb.org)

## **XI. ACCOUNTABILITY MECHANISM**

74. 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>24</sup>

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

75. The PAM was amended in May 2018 to incorporate the ADB-administered additional financing provided for by the Women Entrepreneurs Finance Initiative (We-Fi) and increase in amount and expansion of scope of the transaction TA (TA 9080) financed on a grant basis by We-Fi, with the existing additional financing for SME line of credit project.

---

<sup>24</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 project management unit.

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 [uwalpitagama.consultant@adb.org] with copy to [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 may 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: \_\_\_\_\_

## ALLOCATION REQUEST FORM WOMEN ENTREPRENEURS FINANCE INITIATIVE

[Contingent on grant effectiveness,] The local currency equivalent of \$[•] million is available to be allocated among [•] banks. Requests must be made in increments of \$10,000. Instead of specifying a specific amount, banks may request the maximum available based on the lower of a pro rata distribution or 20% of a participating bank's allocation under the credit line. If undersubscribed, the funds will be distributed as rolled over to the next allocation or otherwise allocated as directed in the Grant Agreement.

Your institution will be notified by [•] 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].

This form must be returned to ADB [uwalpitagama.consultant@adb.org] with copy to [altan@adb.org] and [dlambert@adb.org] by midnight (Sri Lanka time) of [30 May 2018/28 September 2018/29 March 2019]. Forms may be sent earlier than that date, but forms sent after that time may 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 \_\_\_\_\_ (expressed in increments of \$10,000) or leave the amount blank and check this box ☐ if requesting the maximum available based on the lower of a pro rata distribution or 20% of a participating bank's allocation under the credit line.

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 and/or 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 (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 certified that the subloan is compliant with national laws and ADB's Safeguard Policy Statement (2009). In the absence of such system, the subprojects will have no environmental impact.

3. In addition to these criteria, the 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 Colombo district (the SME may have a representative office in Colombo district so long as the funds are used for subprojects outside 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.
  - (ii) Additionally, for subloans that qualify for Women Entrepreneur Finance Initiative (We-Fi) grant funded principal paydown, women-led SME are also defined as having (i) at least 51% ownership by a woman/women, or (ii) at least 20% owned by a woman/women, and have at least 1 woman as senior manager (chief executive officer or chief operations officer), and have at least 30% female representation on the board of directors, where a board exists.
  
3. Women-led SMEs that meet both criteria (i) and (ii) below are eligible for a 20% principal paydown funded by the We-Fi grant:
  - (i) 51% of enterprise ownership is controlled by women or meets the below 3 criteria:
    - (a) At least 20% of enterprise ownership is controlled by women;
    - (b) A woman is either the chief executive officer (i.e., senior most manager) or chief operations officer (i.e., second most senior manager); and
    - (c) 30% of board members are women, where a board exists.
  - (ii) The loan principal is at least Rs750,000.
  
4. 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 most recently published average weighted deposit rate plus the average weighted credit margin that the PFI charged on its initial subloans.

<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.

The PFIs must also continue to comply with fiduciary and safeguard covenants in the subsidiary loan agreements with the government.

5. 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.

6. 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 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.

7. 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.

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

9. 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

Items	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>	<i>3,500,000</i>	<i>3,000,000</i>	<i>500,000</i>	<i>4,000,000</i>	<i>4,500,000</i>	<i>4,000,000</i>
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>						

ADB = Asian Development Bank, MOF = Ministry of Finance, PMU = project monitoring unit.

**ADVANCE RECONCILIATION WORKSHEET**  
**WOMEN ENTREPRENEURS FINANCE INITIATIVE (WE-FI) GRANT**

Items	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>	<i>3,500,000</i>	<i>3,000,000</i>	<i>500,000</i>	<i>4,000,000</i>	<i>4,500,000</i>	<i>4,000,000</i>
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>						

ADB = Asian Development Bank, MOF = Ministry of Finance, PMU = project monitoring unit, We-Fi = Women Entrepreneurs Finance Initiative.