

Project Administration Manual

Project Number: 51269-003
Loan Number: LXXXX
October 2022

People's Republic of Bangladesh: Microenterprise
Financing and Credit Enhancement Project

ABBREVIATIONS

ADB	–	Asian Development Bank
AEFS	–	audited entity financial statement
CGF	–	credit guarantee fund
ERD	–	Economic Relations Division
ESMS	–	environment and social management system
FID	–	Financial Institutions Division
GAP	–	gender action plan
MFI	–	microfinance institution
MIS	–	management information system
MOF	–	Ministry of Finance
MRA	–	Microcredit Regulatory Authority
MSME	–	micro, small and medium sized enterprise
NPL	–	nonperforming loan
PAM	–	project administration manual
PIU	–	project implementation unit
PKSF	–	Palli Karma Sahayak Foundation
PO	–	partner organization
PSC	–	project steering committee
RRP	–	report and recommendations of the President
SOE	–	statement of expenditure
SOUF	–	statement of utilization of fund
TA	–	technical assistance

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Project Administration Manual Purpose and Process

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

The Financial Institutions Division (FID) of the Ministry of Finance (MOF) as the Executing Agency and Palli Karma Sahayak Foundation (PKSF) as the Implementing Agency are wholly responsible for the implementation of ADB-financed projects, as agreed jointly between the borrower and ADB, and in accordance with the policies and procedures of the government and ADB. ADB staff is responsible for supporting implementation including compliance by FID and PKSF of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

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

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

Indicative Activities	2021				2022				Responsible Agency
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Project management unit established at PKSf									PKSF
Project monitoring system established									ADB, PKSf
ADB confirms partner organizations' approved loan sanction requests									ADB, PKSf
A subsidiary loan agreement signing between FID and PKSf									PKSF, FID
Loan, TA letter and project agreements signing									ADB, FID
Loan effectiveness									ADB
TA effectiveness									ADB

ADB = Asian Development Bank, FID = Financial Institutions Division, PKSf = Palli Karma Sahayak Foundation.
Source: Asian Development Bank estimates.

III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations: Roles and Responsibilities

1. Steering Committee

4. A project steering committee (PSC) will comprise:

- (i) Senior Secretary/Secretary of Financial Institutions Division (FID), Ministry of Finance (MOF) – Chair,
- (ii) Economic Relations Division (ERD) representative,
- (iii) Finance Division representative,
- (iv) FID representative,
- (v) PKSF representative, and
- (vi) Other relevant stakeholders.

5. The PSC is expected to meet at least semi-annually. The PSC will monitor and supervise the overall project implementation and provide guidance on major project implementation issues.

6. FID as the executing agency will supervise the project implementation by receiving quarterly project performance monitoring reports, annual audited statement of utilization of funds, and other relevant project information. It will provide guidance on day-to-day project implementation matters to the project implementation unit (PIU) and liaise with ADB as and when needed. The PSC can call for project coordinating meetings with the implementing agency as necessary.

7. PIU will be established at PKSF. PIU will be headed by a project director and at least five full-time staff whose qualifications are satisfactory to ADB. PIU will implement and monitor the project implementation, coordinate with the TA consultants, and report project progress to ERD, FID and ADB. The organogram for the credit line and pilot credit guarantee component PIU is in Appendix 4.

Table 3: Project Implementation Organizations: Roles and Responsibilities

Project Implementation Organizations	Management Roles and Responsibilities
Executing Agency: FID	<ul style="list-style-type: none"> 1. Responsible for the overall project implementation and provide project implementation guidance 2. Manage and administer US dollar advance account opened for credit line component and credit guarantee component 3. Liaise with ADB for any project implementation issues 4. Provide necessary implementation support to PKSF 5. Sign the subsidiary agreement with PKSF and monitor compliance
Project Steering Committee	<ul style="list-style-type: none"> 1. Provide overarching guidance and policy level support to the project 2. Monitor and review project performance at an inter-agency level and address key policy related issues 3. Ensure collaboration and cooperation among agencies
Implementing Agency: PKSF	<ul style="list-style-type: none"> 1. Identify and conduct due diligence of partner MFIs (partner organization) for financing under the project 2. Develop and sign financing agreements with partner organizations and credit guarantee agreements with eligible commercial banks 3. Monitor partner organizations' compliance with the loan agreement conditions and achievements of the project's design and monitoring framework targets

Project Implementation Organizations	Management Roles and Responsibilities
	<ol style="list-style-type: none"> 4. Ensure partner organizations conduct social and environmental due diligence and subproject screening and assessment as required, following the ESMS 5. Submit annual environmental and social performance report to ADB 6. On behalf of FID, submits to ADB sufficient evidence of authority of persons who will sign the withdrawal applications on behalf of the government, together with specimen signatures of each authorized person. Prepares and submits withdrawal applications and other supporting documents to ADB. 7. Manage and administer credit line advance subaccount (sub-account 1) and credit guarantee subaccount (sub-account 2). 8. Provide necessary institutional support to establish and operate CGF 9. Ensure updating project performance monitoring system 10. Supply necessary project implementation data for the project performance monitoring system 11. Ensure compliance with loan agreement covenants 12. Ensure progress of gender action plan and submit GAP quarterly progress report. 13. Ensure partner organizations' submission of monthly project progress report. 14. Ensure partner organizations' submission of statement of utilization of funds for credit line. 15. Ensure annual submission of credit guarantee component utilization. It will include the commercial bank to whom the guarantee has been issued, partner organization on whose behalf the credit guarantee has been issued, claim status of the guarantee issued in addition to other information such as the partner organizations access to commercial bank funding in the previous financial year as specified in para. 39–40. 16. Ensure submission of quarterly report on credit guarantee funds which are ring fenced from PKSf's other funds which will include details of investments and bank statements of permitted investments (specified in paras. 39–40 of this PAM and the subsidiary agreement between the FID and PKSf) and details of eligible POs which signed guarantees with commercial banks. 17. Ensure the submission of PKSf's annual audited statements of utilization of funds to ADB for both the credit line and credit guarantee component. 18. Submit entity-level audited financial statements to ADB 19. Call for project steering committee meetings 20. Represent at the portfolio management review meetings organized by ADB and the government 21. Provide technical inputs and information and other necessary assistances to the TA consultants 22. Retain a record of the commercial bank's submission of claims, guarantees issued and other supporting documents for the credit guarantee component, for ADB special spot audit (as needed) 23. Prepare a project completion report 24. Enter into guarantee agreement with commercial banks as per the operations manual once the credit guarantee mechanism has been set up. 25. Submit to ADB the PKSf governing body -approved operations manual for the credit guaranty, letter on the information system to tag the credit guarantee operations in management reports, letter on the set-up of

Project Implementation Organizations	Management Roles and Responsibilities
	<p>specific chart of accounts to record credit guarantees issued and claims paid, and templates of guarantee agreements with commercial banks.</p> <p>26. Once credit guarantee fund is set-up, provide ADB annually with a list of partner organizations and their loan outstanding balance from commercial banks.¹</p> <p>27. Ensure that the partner organizations conduct climate change and disaster risk screening for each climatically adverse region where qualified subprojects are located as part of the credit appraisal process for a Qualified Enterprise to identify climate risk adaptation and mitigation measures.</p>
Partner Organizations	<ol style="list-style-type: none"> 1. Implement and ensure compliance with the selection criteria for microenterprise borrowers, subprojects, and subloans and with covenants in project agreement, including undertaking the climate and disaster risk screening 2. Provide climate and disaster risk management advisory services to eligible microenterprise borrowers with medium or high climate risk rating based on the climate and disaster risk screening 3. Ensure that qualified microenterprise borrowers comply with ADB's safeguard policy requirements and applicable national environmental, health and safety, and social laws and regulations 4. Submit annual statement of utilization of funds to PKSf 5. Submit monthly project progress report to PKSf 6. Respond to other information requests as required 7. Sign loan agreement with commercial bank under credit guarantee fund. 8. Sign loan agreement with PKSf under credit line.
Participating commercial banks	<ol style="list-style-type: none"> 1. Submit record defaults and other supporting documents for the credit guarantee component 2. Sign guarantee agreement with PKSf. 3. Sign agreement with partner organizations. 4. Send monthly report to PKSf following given template. 5. Follow operational manual for credit guarantee fund.
ADB	<ol style="list-style-type: none"> 1. Conduct field review missions, midterm review mission, and project completion review mission to assess project implementation progress and compliance of loan agreement 2. Review project performance monitoring system, annual audit report, and annual environmental and social performance report 3. Check statement of expenditure and disburse or liquidate the credit line funds as set out in the PAM paras. 27–31. 4. Review the operations manual for credit guarantee*, letter on the information system to tag the credit guarantee operations in management reports, the set-up of specific chart of accounts to record credit guarantees issued and claims paid, the establishment of a treasury division and templates of guarantee agreements with commercial banks before endorsing the credit guarantee disbursement in the initial advance (first disbursement under advance procedure) 5. Check statement of expenditure and disburse or liquidate the credit guarantee

ADB = Asian Development Bank, CGF = Credit Guarantee Fund, FID = Financial Institutions Division, GAP = gender action plan, PAM = project administration manual, PKSf = Palli Karma Sahayak Foundation, TA = technical assistance. Source: Asian Development Bank.

¹ 50% of the credit guarantee funds can be used to issue guarantees for partner organizations which have a maximum of 30% loans outstanding from commercial banks in the immediately preceding financial year.

*Note: To be reviewed by the project team and the Private Sector Operations Department's Microfinance Program.

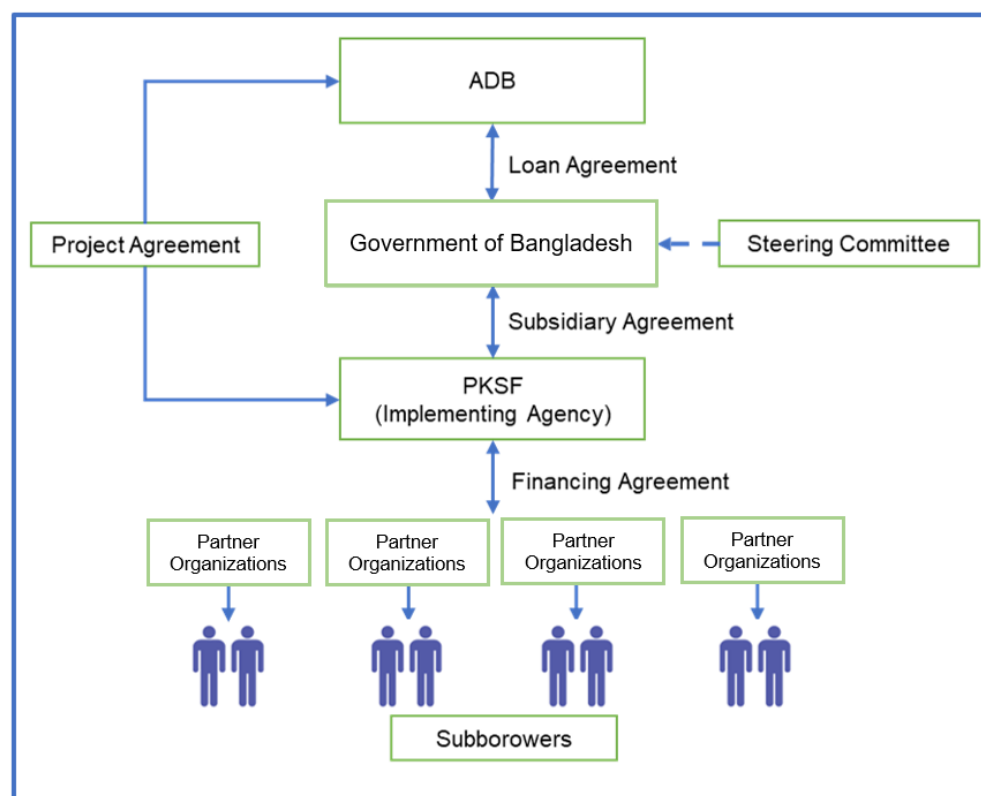
B. Key Persons Involved in Implementation

Table 4: Key Persons Involved in Implementation

Executing Agency	
Financial Institutions Division Ministry of Finance	Mr. Md. Azimuddin Biswas Joint Secretary, Project Management E-mail: js.sb@fid.gov.bd
Implementing Agency	
Palli Karma Sahahak Foundation	Mr. Md. Fazlul Kader Additional Managing Director E-mail: fazlulkader@pksf-bd.org / fazlulkader@gmail.com
Asian Development Bank	
Public Management, Financial Sector, and Trade Division (SAPF) South Asia Department	Mr. Sabyasachi Mitra Director E-mail: sabymitra@adb.org
Mission Leader	Ms. Manohari Gunawardhena Senior Financial Sector Specialist E-mail: mgunawardhena@adb.org

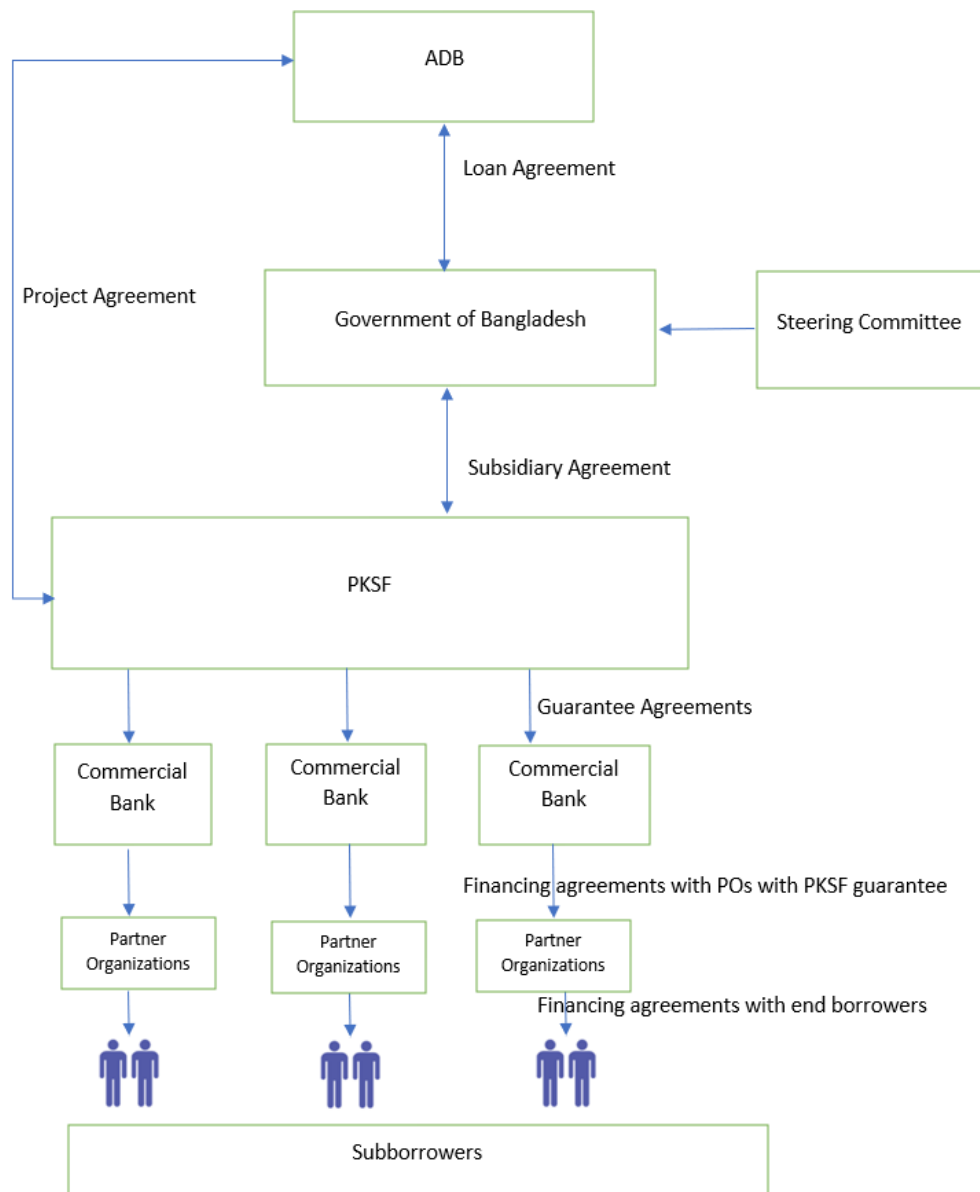
C. Project Organization Structure

1. Output 1 – Credit Line



ADB = Asian Development Bank, PKSF = Palli Karma Sahayak Foundation
Source: Asian Development Bank.

2. Output 2 – Credit Guarantee Fund (tentative)



ADB = Asian Development Bank, CGF = credit guarantee fund, PKSF = Palli Karma Sahayak Foundation, PO = partner organization.

Source: Asian Development Bank.

IV. COSTS AND FINANCING

A. Cost Estimates Preparation and Revisions

8. The cost estimates were prepared by PKSF in consultation with ADB. No cost revision is expected during the project implementation.

B. Detailed Cost Estimates by Expenditure Category

Table 5: Cost Estimates by Expenditure Category
(\$ million)

Items	Total Cost	Share of Total (%)
Credit line ^a	180.0	90.0
Credit Guarantee Fund	20.0	10.0
Total Project Cost	200.0	100.0

^a The microenterprise borrowers are required to contribute at least 20% of the total investments from their own sources.
Source: Asian Development Bank.

C. Allocation and Withdrawal of Loan Proceeds

9. The allocation and withdrawal of ADB loan proceeds are in Table 6.

Table 6: Allocation and Withdrawal of ADB Loan Proceeds

Number	Item	Total Amount Allocated for ADB Financing (\$ million)	Percentage and Basis for Withdrawal from the ADB Loan Account
1	Credit line	180.0	100% of total expenditures claimed
2	Credit guarantee fund	20.0	100% of total expenditures claimed
	Total	200.0	

Note: Credit guarantee fund is subject to the conditions for withdrawal described in para. 5 of Schedule 3 of the Loan Agreement.

ADB = Asian Development Bank.

Source: ADB.

1. Credit Line

10. **ADB loan (ADB to Bangladesh).** The government has requested a concessional loan of \$200 million from ADB's ordinary capital resources to help finance the project. Finance Division of the Ministry of Finance (MOF), the Government of Bangladesh is the borrower. The concessional loan will have a 25-year term, including a grace period of 5 years; an interest rate of 2% per year during the grace period and thereafter; and such other terms and conditions set forth in the draft loan and project agreements.

11. **Relending (government to Palli Karma Sahayak Foundation).** Finance Division of the Ministry of Finance will relend the ADB loan proceeds to PKSf in local currency at the terms and interest rate determined by the government. The government will bear the foreign exchange risk.

12. **Onlending (from Palli Karma Sahayak Foundation to partner organizations).** PKSf will onlend to partner organizations to finance eligible microenterprise borrowers. Onlending rates from PKSf to partner organizations are 7.5% p.a. for partner organizations with a total loan outstanding of Tk1 billion or above; 6.0% for partner organizations with a total loan outstanding between Tk0.5 billion – Tk1 billion; and 5.0% with a total loan outstanding below Tk0.5 billion. PKSf's loans to partner organizations will have maturity of 3 years including a grace period of 6 months. Onlending rates may be revised by the discretion of PKSf in accordance with government directives and PKSf's lending policies and procedures, as approved by PKSf's Governing Body.

13. **Sublending.** Partner organizations' sublending rate to microenterprise borrowers shall be within the regulatory limit as defined by Microcredit Regulatory Authority (MRA). Under the attached TA, the project will conduct partner organization cost diagnosis to review partner

organizations cost structure, to recommend partner organizations how to reduce operating cost to improve partner organizations' price competitiveness. The maximum subloan size is Tk5 million. For the first-time borrower, the maximum subloan size is Tk100,000. Subloans will have up to 2 years maturity with flexible repayment schedule subject to partner organizations' microenterprise borrower's cash flow. A maximum lending rate of 18% per annum will be applied by partner organizations on all subborrowers under the ADB loan. PKSf will endeavor to lower the interest rate to 15% per annum based on the achievement of operational efficiencies as observed by the finance division. Each subloan will finance no more than 80% of the cost of the subproject with the remainder to be covered by the subborrowers' contribution.

14. **Revolving fund (at Palli Karma Sahayak Foundation).** The loans lent by PKSf to eligible partner MFIs (subloans) once repaid to PKSf by partner organizations will be maintained at the microenterprise fund account established at PKSf. PKSf will onlend to partner organizations with the project's same onlending terms and conditions by PKSf. The same partner organization and microenterprise borrower eligibility criteria will be applied.

15. **Eligibility criteria of partner microfinance institutions and microenterprise borrowers.** Eligibility criteria of partner organizations and microenterprise borrowers are defined as below:

(a) Partner Microfinance Institutions

16. Partner organizations participating in the project must be licensed by MRA and comply with prudential norms and regulations set by MRA. In addition, for PKSf to finance microenterprise loans, partner organizations must meet and maintain at least the following eligibility criteria:

- (i) A cumulative recovery rate of at least 95%.²
- (ii) A recovery rate of the current loan of at least 92%.³
- (iii) Debt to total equity of 9:1.
- (iv) A minimum required capital of Tk2.0 million.
- (v) A capital adequacy ratio of no less than 10%.⁴
- (vi) A portfolio at risk of no higher than 10%.⁵
- (vii) Is profitable over the last two audited financial statements, or as of the last two financial years.
- (viii) Has 2 years of experience of implementing microfinance program as a partner organization of PKSf.
- (ix) Must have borrowers from climatically adverse⁶ regions comprising minimum 10% of the portfolio.

² Cumulative recovery rate is defined as amount received for scheduled payments and payments past due as a share of total loan principal recoverable since inception.

³ Recovery rate of current loan is defined as amount received for scheduled payments as a share of total payments due within 12 months.

⁴ The capital adequacy ratio total capital (tier 1 and tier 2 capital) to an asset base of total assets less cash, bank placements and short-term deposits. Tier 1 capital includes equity, ordinary share capital; Tier 2 capital include retained earnings, unaudited reserve and general loss reserves.

⁵ Portfolio at risk is defined as outstanding balance of loans with payments past due for 90 days as a share of the total portfolio. Loans are taken into account from when the first installment is past due.

⁶ Climatically adverse regions are saline affected, flash flood-prone, flood-prone and drought-prone areas. Planning Commission, Ministry of Planning and Asian Development Bank. 2021. [Bangladesh Climate and Disaster Risk Atlas: Hazards—Volume I](#). Dhaka, Bangladesh and Manila, Philippines.

(b) Microenterprise Borrowers

17. Microenterprise borrowers to be financed under the project shall be an eligible member of partner organizations. In addition, a microenterprise borrower shall meet the following eligibility criteria:

- (i) Capable and successful in operating microenterprise and has a visible business entity with investment between Tk40,000 to Tk1.5 million (excluding land and building used in the enterprise).
- (ii) Progressive members of partner organizations, or individual microentrepreneurs.⁷
- (iii) Any other member from the household of the progressive microcredit borrower.
- (iv) Must invest at least 20% of the total investment for which the microenterprise borrows from the partner organization from microenterprise borrower's own resources.

2. Pilot Credit Guarantee Fund (Tentative)

18. **Eligibility criteria of participating commercial banks.** Eligibility criteria of participating commercial banks are defined below. The eligibility criteria will be further reviewed and finalized in consultation with ADB and PKSF:

- (i) Has appropriate internal rules and procedures for lending to MFIs including an MFI loan origination policy and clear loan documentation and procedures for MFI lending;
- (ii) uses a credit rating system for MFIs, including models, rules, procedures in accordance with the rules and regulations of Bangladesh Bank;
- (iii) be able to demonstrate staff capacity in assessing and managing loans to MFIs; and
- (iv) has a share of non-performing loans in its loan portfolio, inclusive of loan write-off balances in the loan portfolio issued for business purposes for the last 2 years, not exceeding 10% (such percentage may be revised by agreement between ADB and PKSF), and appropriate internal rules and procedures for dealing with overdue loans.

19. **Eligibility criteria of participating partner organizations.** Eligibility criteria of participating partner organizations are the same as the partner organization eligibility criteria for the credit line.

20. **Issuance of guarantees from Palli Karma Sahayak Foundation to commercial banks.** The guarantees issued by PKSF in the long run are expected to support MFIs to increase access to commercial bank funding in the medium term. To this end PKSF would issue 50% of the guaranteed funds under the CGF on behalf of partner organizations whose access to commercial bank funding in the previous financial year is no more than 30% of their loan outstanding. After the credit guarantee fund is set-up, PKSF shall provide ADB annually during the pilot period with a list of partner organizations participating in the CGF and their loan outstanding balance from commercial banks.

⁷ Progressive member of the partner organization is defined as a member of the partner organization who has borrowed at least once over the last two years and is deemed to have repaid on a timely basis.

21. At project completion, the PKSF will be given the option to (i) retain the disbursed amount in the CGF account to continue the CGF operations; or (ii) convert the CGF account balance to onlending fund for microenterprise loans to MFIs. This will be agreed with at least 3 months before project completion between FID, PKSF, and ADB based on satisfactory performance of pilot CGF, PKSF's financial management, and compliance of covenants.

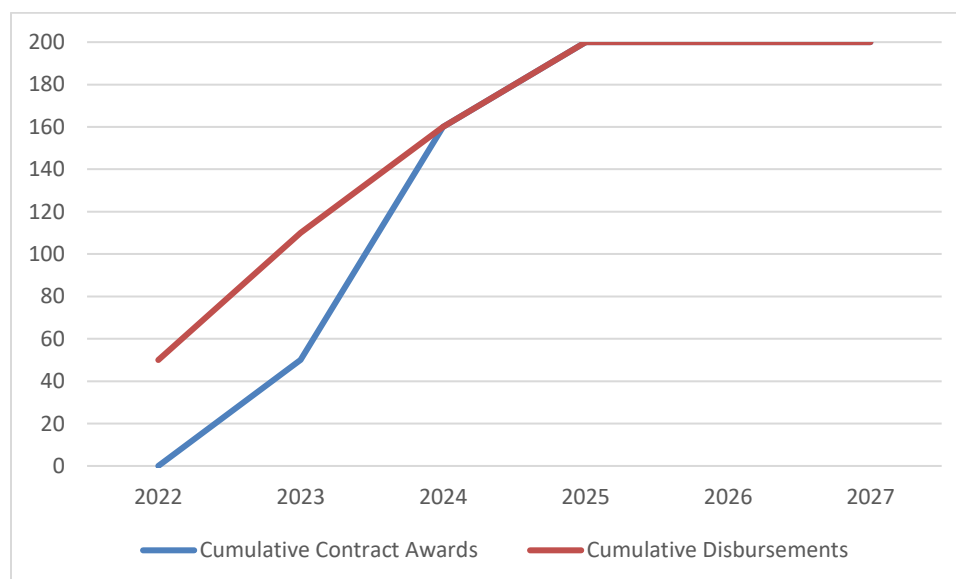
D. Contract and Disbursement S-Curve

22. The disbursement schedule is \$200 million for December 2022–December 2027.

Table 7: Contract Awards and Disbursement Projections
(\$ million)

Year	2022	2023				2024				2025				2026			
Quarter	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
Contract Awards	0	0	50	0	0	50	10	0	50	0	0	0	40	0	0	0	0
Credit Line	0	0	50	0	0	50	0	0	40	0	0	0	40	0	0	0	0
Guarantee	0	0	0	0	0	0	10	0	10	0	0	0	0	0	0	0	0
Disbursement	50	0	0	50	10	0	50	0	0	0	40	0	0	0	0	0	0
Credit Line	50	0	0	50	0	0	40	0	0	0	40	0	0	0	0	0	0
Guarantee	0	0	0	0	10	0	10	0	0	0	0	0	0	0	0	0	0

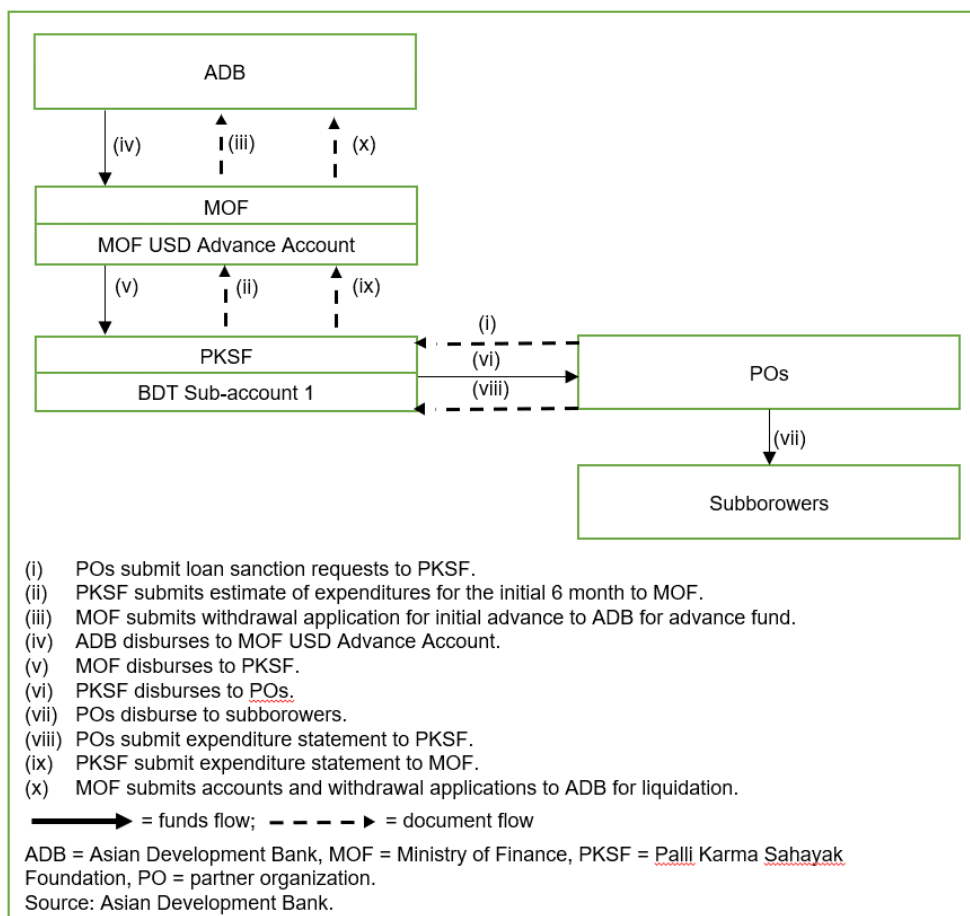
Source: Asian Development Bank.



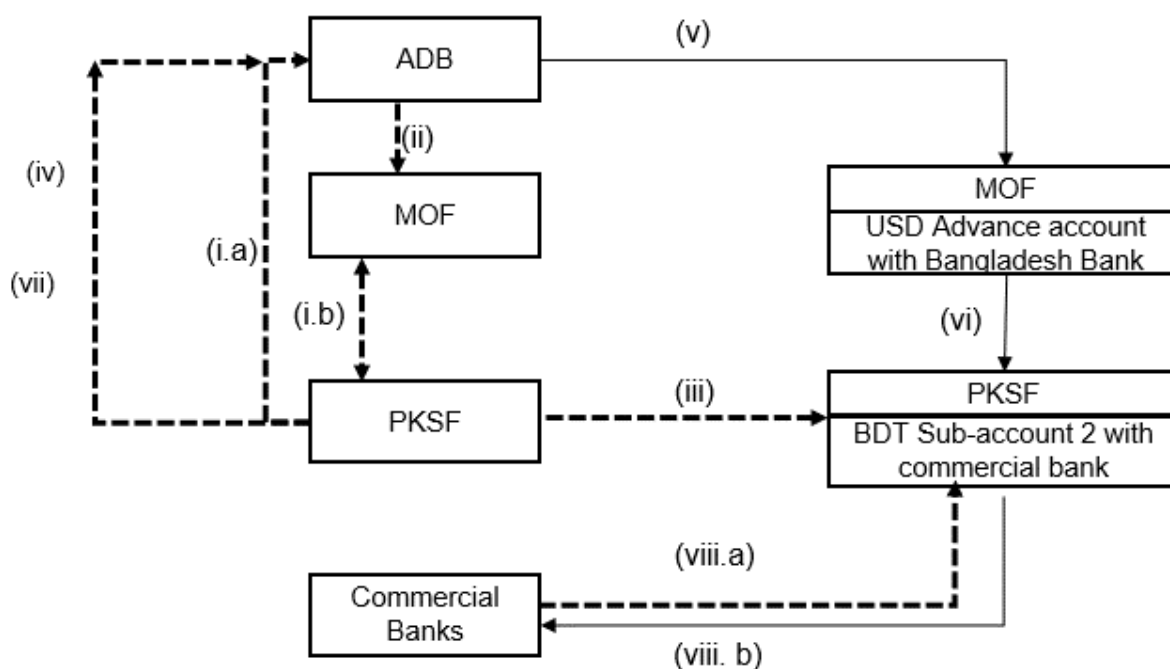
Source: Asian Development Bank.

E. Fund Flow Diagram

1. Credit Line



2. Credit Guarantee Fund



—→ = funds flow; - - - - -> = document flow

- (i) PKSF submits (a) evidence of setting up the credit guarantee mechanism as specified in paragraph 5 of Schedule 3 of the Loan Agreement and para. 33 of PAM to ADB for endorsement. In addition PKSF (b) signs the subsidiary agreement with MOF which specifies ringfencing of credit guarantee funds and permitted investments in line with para. 65 of PAM.
- (ii) ADB reviews all documents in (i) above, endorses the request.
- (iii) PKSF opens a new BDT subaccount (sub-account 2) with commercial bank for credit guarantee purposes.
- (iv) PKSF submits to ADB six months' estimated cashflow required for payments to be made by the executing agency to cover guarantees to be issued by PKSF to commercial banks at the time of request for first USD advance. A list of pipeline guarantees that is expected to be signed with commercial banks in the next 6 months should be attached.
- (v) ADB disburses the first USD advance to the MOF USD advance account, on the basis of the 6 months' estimated cash flow statement provided by the executing agency to cover expected guarantee agreements.
- (vi) MOF disburses funds from the first advance to the credit guarantee BDT sub-account 2. Subsequent replenishment/ advances will be based on the submission of signed guarantee agreements linked to the previous advance in (iv) and (v).
- (vii) PKSF submits to ADB signed guarantee agreements entered into with commercial banks from the advances and evidence of payments made by MOF USD advance account to BDT sub-account 2.
- (viii) Commercial Banks (a) submit claims to PKSF during credit events on loans to partner organizations on whose behalf the commercial banks have obtained credit guarantee from PKSF. PKSF (b) pays the claims to the commercial banks as per the guarantee agreement between PKSF, commercial banks and the relevant partner organizations.

ADB = Asian Development Bank, BDT= Bangladesh taka, MOF = Ministry of Finance, USD = US Dollar.

Source: Asian Development Bank.

V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

23. The financial management assessment was conducted for FID, PKSF and ten partner

organizations in accordance with ADB's Financial Management Technical Guidance Note: Financial Management Assessment issued in 2015 and Financial Due Diligence for Financial Intermediaries Technical Guidance Note issued in 2018. The financial management assessment considered the capacity of PKSf and the partner organizations, including fund-flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and internal and external auditing arrangements.

24. FID has prior experience with donor-funded programs including ADB-funded projects and has successfully implemented the Microenterprise Development Project.⁸ Previous financial management assessments found that PKSf has sufficient experience of managing similar projects for ADB and other international development partners. PKSf has the necessary financial management arrangements including procedures on making payments, accounting of transactions, financial reporting, and auditing of financial statements, to avoid misuse or misappropriation of funds. However, certain areas require improvements including (i) internal control, (ii) internal audit, (iii) management information system (MIS), and (iv) implementation of accrual basis accounting principles as described in the Risk Assessment and Management matrix. PKSf's financial management risk is assessed as moderate. FID and PKSf managed the advance fund and statement of expenditure (SOE) procedures in the MDP and is using under the MDP – Additional Financing. FID and PKSf has experience managing the advance fund and SOE procedures for financial intermediation loans. Because PKSf will operationalize the credit guarantee scheme for the first time, ADB will do its due diligence prior to the disbursement of the credit guarantee facility. The financial management assessment will be updated in consultation with PPF. Further, the piggybacked TA will support preparatory activities to operationalize the credit guarantee component.

Table 8: Financial Management Action Plan

Agreed Action	Responsible Party	Timeline
1. Project implementing agency		
<input type="checkbox"/> Establishment of the project implementing unit.	PKSF	By loan effectiveness date
<input type="checkbox"/> Training will be provided to relevant staff on ADB's FM and disbursement requirements	ADB	1 month after loan effectiveness date
<input type="checkbox"/> TA will provide training of trainers to PKSf staff who will provide training on accounting and financial reporting to POs	PKSF and ADB	3 months from loan effectiveness date
2. Accounting: Lack of proper application of MRA's requirements by PKSf and POs.		
<input type="checkbox"/> Separate accounting records shall be maintained for ADB project (i.e., by sources and use of funds)	PKSF and POs	From loan effectiveness date throughout the project
<input type="checkbox"/> Open advance and sub-accounts	FID and PKSf	By loan effectiveness date
<input type="checkbox"/> PKSf and POs should follow existing government accounting and reporting requirements (i.e., MRA requirements) throughout project life.	PKSF and POs	From loan effectiveness date throughout the project
<input type="checkbox"/> Reconciliation between LFIS (ADB disbursement records) with project records at least quarterly basis to ensure all withdrawal applications are correctly reflected in the QPR/PFS	PKSF	Quarterly
<input type="checkbox"/> Review the existing accounting policies of the POs and provide support through the attached TA if there are updates required.	PKSF	Q4 2023

⁸ ADB. [Bangladesh: Microenterprise Development Project.](#)

Agreed Action	Responsible Party	Timeline
3. Financial Reporting: Risk of non-compliance with the ADB's audit requirements by PKSF and POs, delays and poor-quality financial reports of POs.		
<input type="checkbox"/> Prepare a comprehensive financial management information in the quarterly progress report in a format agreed with ADB. The report should include the status of FM action plan, utilization of funds, and internal and external audit findings.	PKSF	45 days from the end of each quarter
<input type="checkbox"/> Each PO will submit its unaudited SOUF to PKSF. PKSF will consolidate SOUFs of all POs and arrange audit of consolidated SOUF. Submission of audited statement of utilization of funds including the following: (i) a statement of budgeted vs actual expenditures, (ii) a withdrawal application reconciliation and (iii) comprehensive disclosure of used accounting policies, and financial reporting framework in the notes.	PKSF	6 months after end of each fiscal year
<input type="checkbox"/> Consultation with the external auditor on adequacy of accrual accounting. Provide support through the attached TA on strengthening accounting policies and system of PKSF if necessary	PKSF	Q3 2023
4. Strengthening PKSF Structure and Governance		
<input type="checkbox"/> Development of risk management framework	PKSF	Q2 2023
<input type="checkbox"/> The attached TA will assist PKSF to develop and propose a financing strategy which would aid PKSF to manage diversified sources of funding	PKSF	Q3 2023
<input type="checkbox"/> Executive internal audit committee will review audit findings and produce a report to present annually to the Governing Body.	PKSF	12 months after loan effectiveness
<input type="checkbox"/> MIS and IT department will develop TOR under technical assistance for development of a module software that would enhance MIS reporting function and link loan management system and rating system. The system enhancement will facilitate to generate better and comprehensive management reports, assess the loan portfolio quality on monthly basis and make appropriate loan loss expenses on monthly basis.	PKSF and ADB	By Q4 2023
5. Pilot of Credit Guarantee Fund: The lack of experience and procedure manual in-place for CGF may result to inefficiencies and inconsistencies in implementing and reporting the CGF.		
<input type="checkbox"/> Develop a CGF terms and conditions, business plan, operational guidelines, and manuals.	PKSF	Q1 2024
<input type="checkbox"/> Trainings to operationalize the CGF will be provided to relevant staffs. TA funds will be used to enhance PKSF institutional capacity	PKSF	Q1 2023
6. Internal audit: The internal audit policy of PKSF is adequate but coverages of all POs are not enough.		
<input type="checkbox"/> Inclusion of the project in the internal audit annual workplan.	IAD	By loan effectiveness date
<input type="checkbox"/> Inclusion of internal audit findings in the quarterly progress report submitted to ADB 45 days from end of each quarter.	PKSF	Quarterly
<input type="checkbox"/> Internal audit findings will be reported to the project steering committee	IAD	Quarterly
7. External audit: Auditor's opinion on use of funds and financial covenants, audit observations may be pending for a long time.		
<input type="checkbox"/> Prepare a TOR for external auditor, considering the ADB's audit requirements are followed including the audit opinion on the use of funds for intended purpose.	PKSF	By loan effectiveness
<input type="checkbox"/> Submission of audited statement of utilization of funds, separate opinion on use of loan proceeds and auditor's opinion on compliance with financial covenants (if any).	PKSF	Annually within 6 months after the end of the fiscal year.
<input type="checkbox"/> Audit observations are to be addressed in a timely manner.	PKSF	Annually, within 3 months after the audit report has been issued.

ADB = Asian Development Bank, CGF = credit guarantee fund, FY = fiscal year, LFIS = loan financial information system, MDP = Microenterprise Development Project, MDP-AF = MDP-additional financing, MRA = Microcredit

Regulatory Authority, PIU = project implementation unit, PO = partner organization, PKSf = Palli Karma Sahayak Foundation, QPR = quarterly progress report, SOUF = Statement of Utilization of Funds, TA = technical assistance
Source: Asian Development Bank.

25. The overall project financial management risk is moderate. The ongoing TA for Capacity Development for Microenterprise Development provides support to PKSf and partner organizations to strengthening financial management.⁹ Complementary to the ongoing TA, the project's attached TA will support PKSf by developing a comprehensive risk management framework and partner organizations' by strengthening their operating systems including internal control, internal audit, accounting, and MIS. FID is deemed appropriate to be the project executing agency because of FID's knowledge on PKSf's capabilities to finance MFIs and its experiences with ADB-funded projects. FID has been the executing agency for the Small and Medium-Sized Enterprise Development Project; Second Small and Medium-Sized Enterprise Development Project; and Microenterprise Development Project.¹⁰ All those projects used the advance fund procedure.

B. Disbursement

1. Disbursement Arrangements for ADB Funds

26. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time), and detailed arrangements agreed upon between the government and ADB. Output 1 disbursement procedures are discussed in paras. 27–31, while paras. 32–36 will discuss the disbursement arrangements for the credit guarantee component (output 2).

27. **Output 1.** PKSf will be responsible for preparing disbursement projections based on loan sanction requests by partner organizations, collecting and retaining supporting documents and preparing withdrawal applications for the Ministry of Finance to submit to ADB following ADB procedures.

28. **Advance fund procedure.** FID will open a US Dollar advance account at Bangladesh Bank for PKSf for outputs 1 and 2. The advance account will be under the name of Ministry of Finance. A BDT sub-account (sub-account 1) will be established and maintained by PKSf at a commercial bank. PKSf prepares for submission to ADB, the advance withdrawal applications with the 6-month estimated cash flow statement covering expected payments to be made to partner organizations. The advance accounts and sub-account are to be used exclusively for ADB's share of eligible expenditures. The authorized representatives of FID are ultimately accountable and responsible for the proper use of advances.

29. The total outstanding advance to the advance account should not exceed the estimate of ADB's share of expenditures to be paid through the advance account for the forthcoming six months. PKSf will request for initial and additional advances to the advance account based on an Estimate of Expenditure Sheet setting out the estimated expenditures to be financed through the account for the forthcoming six months.¹¹ Supporting documents should be submitted to ADB

⁹ ADB. Bangladesh. Technical Assistance for Capacity Development for Microenterprise Development. Piggybacked to ADB. [Microenterprise Development Project](#).

¹⁰ ADB. [Small and Medium-Sized Enterprise Development Project](#). ADB. [Second Small and Medium-Sized Enterprise Development Project](#).

¹¹ Estimate of Expenditure sheet is available in Appendix 8A of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

or retained by PKSF in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time) when liquidating or replenishing the advance account.

30. **Statement of expenditure procedure.** The SOE procedure is used for reimbursement of eligible expenditures or liquidation of advances to the advance account.¹² PKSF shall maintain supporting documents and records for the expenditures claimed under the SOE and make readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

31. Before the submission of the first withdrawal application by PKSF through MOF, PKSF on behalf of the borrower should submit to ADB sufficient evidence of the authority of the persons who will sign the withdrawal applications on behalf of the government, together with the authenticated specimen signatures of each authorized person. Use of ADB's Client Portal for Disbursements system is mandatory for submission of withdrawal applications to ADB.

32. **Output 2.** ADB loan proceeds for the pilot credit guarantee fund will be disbursed using the advance fund procedures with full documentation.

33. **Conditions for withdrawal of funds.** Before the initial advance of CGF, PKSF must submit supporting documents to ADB that the credit guarantee mechanism is operationally established to the satisfaction of ADB as out in paragraph 5 of Schedule 3 of the Loan Agreement. These requirements include: (i) establishing a comprehensive operations manual, approved by the PKSF governing body, which includes eligibility and selection criteria for POs and commercial banks under CGF financing investment criteria of credit guarantee funds until guarantees are claimed, (ii) confirmation from PKSF that an information system to tag the credit guarantee operations in management reports is in place, (iii) setting up a specific chart of accounts to record credit guarantees issued and claims paid is in place, (iv) establishing a project management unit within PKSF shall have dedicated full-time staff sufficient for the operation of the CGF, monitoring and management of CGF funds, and preparation of financial and administrative reports on the CGF, and (v) preparation of a template Guarantee Agreement acceptable to ADB for use for the CGF.

34. **Advance fund procedure.** MOF will use the same advance US Dollar account at Bangladesh Bank for the credit line and PKSF will open a separate local currency sub-account (sub-account 2) at a commercial bank for exclusive use of the pilot credit guarantee fund and provide accountability. The advance account and sub-account 2 are to be used exclusively for ADB's share of eligible expenditures.¹³ PKSF's sub-account 2 opened with the above commercial bank will hold 100% of the loan proceeds disbursed for the CGF financing at any time, net of claims paid out to eligible commercial banks. PKSF's sub-account 2 will hold the guarantees issued for the disbursement of potential claims to the commercial banks. Aside from advance procedure requirements in paras. 28–29, the statement of expected expenditures sheet will list the pipeline guarantee agreements and corresponding amounts that PKSF expects to close and sign with commercial banks in the next six months.

¹² Refer to the loan agreement conditions in schedule 3.

¹³ Under sub-account 2, PKSF may opt to manage a separate investment account and claims account. The investment account will be invested in highly liquid permitted investments which will be reflected in the subsidiary loan agreement between the executing agency and PKSF. The claims account may be considered for CGF payments for claim PKSF disburses after claim verification by PKSF. These arrangements will be reviewed by ADB once the CGF documents are submitted by PKSF. Reporting mechanism is discussed in para. 41.

35. **Liquidation.** To liquidate PKSF's advance, PKSF must submit to ADB: (i) signed guarantee agreements entered into with commercial banks from the advances and (ii) evidence of corresponding payments made from USD advance account to BDT sub-account 2.

36. The total outstanding advance should not exceed the estimate of ADB's share of expenditures to be considered eligible.

C. Accounting and Financial Reporting

37. Each output will have a separate financial statement prepared by PKSF. For output 1, credit line component, an audited statement of utilization of funds (SOUF) will be prepared and discussed in para. 38. For output 2, credit guarantee component, credit guarantee fund financial statements will be prepared based on paras. 39–40.

38. **Statement of utilization of funds for output 1.** PKSF shall maintain and cause each partner organizations to maintain, separate books and records for the Project related to the loans to partner organizations and sub-loans to microenterprise borrowers. partner organizations will prepare, on an annual basis, their individual SOUF for submission to PKSF. PKSF will (i) prepare the SOUF (indicating sources of funds and disbursements to partner organizations) in accordance with accounting principles acceptable to ADB, (ii) cause each partner organization to prepare and submit to PKSF an annual statement of utilization of funds for the Project; and (iii) prepare an annual consolidated statement of utilization of funds based on the statements submitted to PKSF. The SOUF must be audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB. PKSF's Governing body will appoint the independent auditors. Sample format of SOUF for PKSF and partner organizations is in Appendix 1. The annual SOUF for PKSF and partner organizations will be prepared within 6 months after the end of the fiscal year.

39. **Credit guarantee fund financial statements for output 2.** PKSF shall (i) maintain, and cause to maintain, separate accounts and records for the Component 2 on CGF operations; (ii) prepare an annual CGF financial statements for Component 2 (indicating sources of funds and disbursements to CGF Institutions or commercial banks and under the notes section will include a list of credit guarantee issued) in accordance with accounting principles acceptable to ADB¹⁴; (iii) have the statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with auditing standards acceptable to ADB; (iv) as part of such audit, the auditors shall prepare a report, which includes the auditors' opinion(s) on the statements referred to and the use of the Loan proceeds, and a management letter (which sets out the deficiencies in the internal control of the Component 2 that were identified in the course of the audit, if any); and (v) furnish to ADB, no later than 6 months after the close of the fiscal year to which they relate, copies of such audited statements, audit reports and management letters, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request. PKSF shall ensure to address in timely manner key audit issues raised by the independent auditors as part of the audits carried out on the annual CGF financial statements (including any such issues set out in a management).

40. PKSF shall maintain sub-account 2 for the credit guarantee component. The annual CGF financial statements will be prepared within 6 months after the end of the fiscal year. The quarterly

¹⁴ The CGF financial statements' format needs to be reviewed by ADB's Public Financial Management Division.

monitoring report for the sub-account statements under the credit guarantee component will be provided to ADB.

41. PKSF shall conduct (i) monthly reconciliations of the advance account, and its sub-account 1; (ii) quarterly reconciliation between the project book of accounts for the credit guarantee component; and (iii) ADB's disbursement data available in ADB's Loan Financial Information System. Any discrepancies of reconciliation items will be followed up on to ensure these are resolved in a timely manner and that there are no misstatements in the financial reports.

42. To ensure that the funds are ringfenced and utilized for its intended use, monitoring mechanisms are to be put in place, such as the annual submission of audited annual project financial statements distinctively covering each loan component (i.e., the credit line vs. the credit guarantee components), as well as and the quarterly submission of reports (incl. bank statements) on the credit guarantee.

D. Auditing and Public Disclosure

43. PKSF will cause its detailed SOUF and CGF financial statements to be audited in accordance with International Standards on Auditing by an independent auditor appointed by PKSF and acceptable to ADB. The statements together with the auditor's opinion will be presented in the English language to ADB within 6 months from the end of the fiscal year by PKSF. PKSF will ensure that total amount in its SOUF reconciles with amounts disbursed by ADB during the respective fiscal year.

44. The audit report for SOUF and CGF financial statement will both include a management letter and auditor's opinion, which cover (i) whether the SOUF for PKSF and consolidated SOUF for partner organizations and commercial banks, present an accurate and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting standards; (ii) whether the proceeds of the loan were used only for the purpose of the project; and (iii) whether the borrower or executing agency was in compliance with the financial covenants contained in the legal agreements. In addition, the auditor must issue a management letter outlining any observed weaknesses in the internal control system. From the second year onwards, the management letter must also include a follow-up on previous year audit observations. In case the auditor does not issue a management letter, the auditor must issue a written confirmation that no internal control issues were identified as part of the audit. A sample terms of reference for audit of SOUF are attached in Appendix 2.

45. The audited entity financial statements (AEFS) of PKSF, together with the auditor's report will be submitted in English to ADB within 1 month after approval by the PKSF management. Each partner organization will submit its audited AEFS to PKSF on annual basis, within 1 month after approval by the partner organization management. AEFS of all partner organizations will be readily available and accessible to ADB.

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

47. The government and PKSF have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the SOUF.¹⁵ ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

48. Public disclosure of SOUF and CGF financial statements, including the auditor's opinion on the financial statements, will be guided by ADB's Access to Information Policy 2018.¹⁶ After the review, ADB will disclose the audited SOUFs and the auditors' opinion on the SOUFs no later than 14 days of ADB's confirmation of their acceptability by posting them on ADB's website.¹⁷ The management letter, additional auditor's opinions, and audited entity financial statements will not be disclosed.¹⁸

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting and Retroactive Financing

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

B. Procurement of Goods, Works, and Consulting Services

50. No direct procurement is expected. Any procurement of goods, works and non-consultancy services of microenterprises shall be carried out in accordance with ADB procurement policy 2017 (2017, as amended from time to time). Procurement to be undertaken by any individual beneficiary will be carried out using established private sector and commercial practices, as long as these practices comply with ADB core procurement principles which includes economy and efficiency.

51. ADB will administer the TA. ADB's South Asia Department will select, supervise, and evaluate the consultants. ADB will recruit international and national consultants using individual consultant selection. ADB will procure consulting services following the ADB Procurement Policy (2017, as amended from time to time) and the staff instructions for ADB-administrated consultants. The TA is estimated to cost \$1,000,000, of which \$800,000 will be financed on a grant basis by ADB's Technical Assistance Special Fund (TASF 7); and \$200,000 will be financed

¹⁵ ADB's approach and procedures regarding delayed submission of SOUF:

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

¹⁶ ADB. 2018. [Access to Information Policy](#). Manila.

¹⁷ PKSF's responses to auditors' management letter, if there is any, can be disclosed in the project monitoring report or other relevant documents.

¹⁸ This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2011. *Public Communications Policy*. Paragraph 97(iv) and/or 97(v).

on a grant basis by the Financial Sector Development Partnership Special Fund.¹⁹ The government through PKSf will provide counterpart support in the form of counterpart staff, secretarial and logistical assistance, and other in-kind contributions.

C. Consultant's Terms of Reference

52. The terms of reference for the consultants are in Appendix 2 of the TA. ADB' South Asia Department will select, supervise, and evaluate the consultants. ADB will recruit international and national consultants using individual consultant selection. ADB will procure consulting services following the principles of Procurement Policy (2017, as amended from time to time) and open competitive bidding procedures explained in Staff Instructions for ADB administered consultants.

VII. SAFEGUARDS

53. In compliance with ADB's Safeguard Policy Statement (2009), the project's safeguard categories are as follows:²⁰

54. **Environment (category FI), Involuntary Resettlement (category FI-C), Indigenous Peoples (category FI-C).** Partner organizations will not finance subprojects with significant environmental impacts (category A), involuntary resettlement impacts (category A and B), and Indigenous Peoples impacts (category A and B). For subprojects with environmental impacts that are categorized as B, partner organizations in consultation with the sub-borrower and the TA consultant will prepare an initial environmental examination and environmental management plan and submit the appropriate plan for PKSf's approval before the subproject is financed. In preparing the initial environmental examination and in the conduct of meaningful consultation, adherence to necessary health and safety protocols (i.e., COVID-19 related) will be followed consistent with the guidelines of relevant government healthcare agencies and the World Health Organization.

55. PKSf has updated its Environmental and Social Management System (ESMS), which was agreed by ADB. PKSf's environmental and social safeguard focal will monitor and report on the status of the ESMS implementation to ADB on an annual basis. Monitoring begins from loan effectiveness and continues until a project completion report is issued. ADB shall receive the annual environmental and social performance report within 90 days after the end of each monitoring period.

56. The Borrower shall cause PKSf to ensure that the partner organizations conduct climate change and disaster risk screening for each climatically adverse region²¹ which include qualified subprojects as part of the credit appraisal process for a Qualified Enterprise (as set out in appendix 3, as may be amended by agreement between ADB and PKSf).

57. The attached TA will strengthen PKSf's capacity in implementing ESMS. PKSf will facilitate:

- (i) Partner organizations to screen all subprojects to be financed to ensure compliance with government regulations, project legal agreements, the PAM, ESMS, ADB's Prohibited Investment Activities List; and

¹⁹ Established by ADB. Financing partner: the Government of Luxembourg.

²⁰ ADB. [Safeguard Categories](#). The PKSf will consult with beneficiaries on the environmental and social screening guidelines; subproject information on environmental and social screening can be disclosed to assess the eligibility of subprojects.

²¹ Footnote 6, page 12.

- (ii) exclude all subprojects with *category A* impacts on the environment, and *category A and B* impacts on the involuntary resettlement, and indigenous people.
- (iii) introduction of a climate and disaster risk screening in partner organizations' credit appraisal process. Partner organization's capacity to promote climate risk adaptation and mitigation measures in microenterprise business clusters will also be enhanced.

VIII. GENDER AND SOCIAL DIMENSIONS

58. Potential gender and social impacts were reviewed. A gender assessment is reflected in the project documents and is an integral part of the project design which is categorized as gender equity. The project addresses women's empowerment by narrowing gender disparities through access to financial resources and opportunities. Furthermore, the attached TA will build women microentrepreneurs' capacity by extending entrepreneurship development training for women microenterprises' business expansion and upscaling.

59. In Bangladesh, women are predominantly employed in the informal sector. Women's access to resources and information is still low compared to their male counterparts and women in Bangladesh are still engaged in work which are generally low-return and vulnerable in nature. The COVID-19 pandemic brought a significant economic distress in all segments of society, and women are among the hardest hit owing to their pre-existing difficulties including higher representation in informal sector. Women's multiple care responsibilities increased due to the pandemic which further deters women's economic empowerment.²²

60. In operating microenterprises, as compared to men, women have added challenges including handling bureaucratic registration and loan application processes, community, and family biases against women's involvement in business activities, insecurity and fear of harassment in businesses and physical travel, and limited schooling and opportunities for skills development. Women are largely involved as entrepreneurs in agriculture, fisheries, livestock, small manufacturing, food processing, services and trading and these sectors have been heavily hit by the COVID-19 pandemic. Some of the key challenges faced by women entrepreneurs have been decreased income and working capitals as businesses have been halted or shut down, depleted savings, and restricted mobility outside the home. The restricted mobility has also resulted in restricted access to mainstream market for collection of inputs and selling products. A study²³ done in 2020, found that 65% women entrepreneurs had no income, between February and June of 2020 when the government-imposed holidays to tackle the onslaught of COVID-19 pandemic. As a result, women entrepreneurs saw a 67% decline in their personal income. Subsequently, these women (90% entrepreneurs) faced social, economic and mental challenges, including domestic violence, lowered buying capacity and stress during the pandemic. MFIs have been providing loans to women microentrepreneurs and in 2020, it is estimated approximately, 78% of MFIs' microenterprise borrowers are women. However, additional support for women's financial literacy, entrepreneurship skills, as well as digital financial services will help women microentrepreneurs' improved access to formal financial services.

²² A study conducted by BRAC, an MFI-NGO, showed that 53% of women have seen a reduction in paid work hours compared to 31% of men. Advocacy for Social Change, Gender, Justice and Diversity of BRAC. 2020. [Situation of Women CMSME Entrepreneurs and Informal Sector Workers – A rapid assessment and quest for recovery from losses induced by COVID-19 pandemic.](#)

²³ Footnote 22.

61. A Gender Action Plan (GAP) has been developed. Its implementation will be monitored regularly and ADB will receive an update on the GAP implementation quarterly.²⁴ The implementation of GAP activities will be monitored by a TA consultant (national microfinance institutions development specialist) and can be supplemented by a staff consultant funded by ADB. A full-time staff from PKSF will be assigned to ensure successful implementation and monitoring of the GAP including reporting on the achievements.

²⁴ Gender Action Plan (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).

Table 9: Gender Action Plan

Activity	Performance Targets / Indicators	Responsibility	Time frame
Outcome: Microenterprises' access to MFI financing increased			
1. Microenterprise borrowers of PKSf's partner MFIs increased by 100,000	1. Of the total borrowers, whom at least 80% are women borrowers (80,000) (Baseline: NA)	PKSF, partner MFIs	December 2027
2. Women economically empowered by expanding microenterprises	2. At least 56,000 women economically empowered (Baseline: NA)	PKSF, partner MFIs	December 2027
Output 1: PKSf funding to MFIs for microenterprise financing expanded			
3. Extend PKSf funding to partner MFIs for women borrowers.	3. At least 80% of PKSf's Tk27 billion total microenterprise loans outstanding to partner MFIs are accessed by women borrowers (June 2020 baseline: Tk16 billion, of which 78% are for women borrowers).	PKSF, partner MFIs	January 2023 – December 2027
Output 3: PKSf's and partner MFIs' institutional capacity and viability enhanced			
4. Update and implement PKSf business plan with GESI focus.	4. PKSf business plan updated and implemented. 5. GESI elements in the business plan is likely to include: (i) GESI specific operational milestones; (ii) capacity development plan for GESI operations; and (iii) performance targets focusing on expanding services to women and vulnerable.	PKSF	January 2023 – December 2027
5. Implement institutional development plan milestones and performance targets (including GESI targets) for 40 partner MFIs.	6. At least 80% milestones and performance targets (including GESI targets) implemented. 7. GESI milestones and targets are likely to include: (i) targets for outreach to women's entrepreneurs; (ii) targets for the development of in-house GESI capacities of MFI staff; and (iii) targets for capacity development of entrepreneurs.	PKSF, partner MFIs	
6. Conduct women entrepreneurship development training.	8. 98 partner MFIs demonstrated enhanced skills to conduct women entrepreneurship development training. 9. At least 60,000 women reported increased entrepreneurship skills including business development and planning, enterprise registration, taxation, basic accounting, company registration and legal filing, taxation, marketing, supply, and inventory management.		
Management Activities			
7. Conduct gender sensitization training for PKSf and Partner MFIs.	10. PKSf project staff (including 90% of eligible women) demonstrated enhanced knowledge on GESI responsive finance project design, requirements for GAP implementation, monitoring and reporting and women entrepreneurship development. 11. Partner MFIs oriented on PKSf approved medium-term gender strategy and action plan.	PKSF	January 2023 – December 2027

GAP = gender action plan, GESI = Gender Equality and Social Inclusion, MFI = microfinance institution, NA = not applicable, PKSf = Palli Karma Sahayak Foundation
Source: Asian Development Bank.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION

A. Project Design and Monitoring Framework

62. Please refer to the Design and Monitoring Framework of the RRP.

B. Monitoring and Reporting

63. **Palli Karma Sahayak Foundation project performance monitoring.** A project performance monitoring system will be established and shared. PKSf will update at least quarterly project performance monitoring system to ADB for the project duration. The project performance monitoring system will monitor and evaluate the project information and data to ensure that planned interventions achieve the desired result under each project component, including key impact and outcome indicators and associated assumptions with corresponding target dates. The monitoring system shall also include compliance with loan agreement, financial management and risk management, eligibility criteria of partner organizations for the credit line and CGF, eligibility criteria of commercial banks for the CGF and gender action plan. The template of the quarterly project performance monitoring system will be shared.

64. **Compliance monitoring.** Partner organizations' compliance with the covenants will be monitored by PKSf based on partner organizations' periodic reports, audited financial statements, and audited project accounts, and will be reported to ADB through project performance monitoring system. Safeguards compliance will be monitored through PKSf's annual submission of environmental and social performance reports to ADB. ADB will conduct periodic review missions, review progress reports by PKSf, conduct random spot checks on subloan documents, conduct SOE review and review of partner organizations' audited financial statements and audited statement of utilization of funds.

65. The available cash balance in the BDT sub-account 2 will be invested in highly liquid permitted investments, with interest earned from such permitted investments to be retained by PKSf for CGF operations, which will be described in the subsidiary loan agreement between the executing agency and PKSf. Quarterly bank statements of the BDT sub-account 2, as well quarterly reports on guarantees issued and claims processed will be submitted to ADB. The tenor of CGF agreements to be issued must fall within the pilot implementation period of four years as reflected in Table 2.

66. **Project completion report.** Within 3 months of the project's completion, PKSf, through FID will furnish to ADB a project completion report containing a detailed evaluation of project design, costs, partner organization performance, social and economic impacts, gender appendix, safeguards, and other details as may be requested by ADB.

Table 10: Summary of Reporting Requirements

Type of Report	From	To	Frequency	Template
1. GAP implementation monitoring report	PKSF	FID, ADB	Updated at least quarterly	Will be shared online.
2. Project Performance Monitoring System	PKSF	FID, ADB	Updated at least quarterly	Will be shared online.

(online) ²⁵				
3. Environmental and social safeguard performance report	PKSF	ADB	Annual	Included in the ESMS.
4. Project Completion Report	PKSF	FID, ADB	With 3 months after the project completion	Project completion report format is available upon request.

ADB = Asian Development Bank, ESMS = environment and social management system, FID = Financial Institutions Division, GAP = gender action plan, PKSF = Palli Karma Sahayak Foundation.

Source: Asian Development Bank.

C. Evaluation

67. To ensure responsive and timely implementation, there will be review missions at least semi-annually. There shall be regular interaction between FID, PKSF, and ADB. In addition, a comprehensive midterm review will be undertaken by FID, PKSF, and ADB about 12 months after the project's effectiveness that will (i) evaluate the scope, design, and implementation arrangements; (ii) assess implementation performance against project indicators; (iii) review and establish compliance with loan covenants; and (iv) identify problems and constraints and, if necessary, recommend changes in the design or implementation arrangements.

68. Within 3 months after the loan closing date, FID and PKSF will submit a project completion report to ADB in a form acceptable to ADB. Subsequently, ADB will field a mission to finalize the project completion report.

D. Stakeholder Communication Strategy

69. PKSF and partner organizations, which are MFI-NGOs, are indispensable part of the project implementation. As part of their operations, partner organizations are regularly conducting communication and consultation with project beneficiaries, in particular, women microentrepreneurs. Partner organizations' communication and consultation includes, among others, information dissemination on project activities and benefits, microenterprise loan demands, issues and constraints in beneficiaries' microenterprise development, key concerns, and inquiries on the project. Partner organizations are encouraged to reach out non-member microentrepreneurs especially women to become partner organizations' member and potential project beneficiaries. ADB will disseminate information about this project and its outcome through publications, presentations, and on its website. ADB will also communicate with the project's internal stakeholders through written documents.

70. The key communication strategies are:

- (i) to inform potential and existing target microenterprise, especially women, about the opportunities of the project including capacity building activities and increased access to credit resources;
- (ii) to empower potential target microentrepreneurs and encourage them to enter into business ventures;
- (iii) to strengthen microenterprise networks and create a learning environment through sharing of experiences;
- (iv) to provide public accountability; and
- (v) to create public support for the project.

²⁵ Brief description of progress of climate risk regions will be included.

X. ANTICORRUPTION POLICY

71. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.²⁶ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency and all project contractors, suppliers, consultants, and other service providers. Individuals and/or entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contracts under the project.²⁷

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

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

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

XI. ACCOUNTABILITY MECHANISM

74. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make an effort in good faith to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.²⁸

XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL

75. All revisions and/or updates during the course of implementation should be retained in this section to provide a chronological history of changes to implemented arrangements recorded in the PAM, including revision to contract awards and disbursement s-curves.

	Date
PAM Approved by ADB	
First Revision	
Second Revision	

²⁶ ADB. [Anticorruption Policy](#).

²⁷ ADB. [Anticorruption and Integrity](#).

²⁸ ADB. [Accountability Mechanism](#).

**ANNUAL STATEMENT OF UTILIZATION OF FUNDS FOR PALLI KARMA SAHAYAK
FOUNDATION (PKSF) AND PARTNER ORGANIZATION (PO)**

A. For Palli Karma Sahayak Foundation

**Annual Statement of Utilization of Funds for Palli Karma Sahayak Foundation
For the Year**

Ended [dd/mm/yy]
(in Tk)

	<u>Notes</u> *	<u>Year 1</u>	<u>Year 2</u>	<u>Cumulative</u>
A. Opening cash advance		xx	xx	xx
I. Sources of funds				
1. ADB loan proceeds		xx	xx	xx
2. Others (e.g., interest earned)		xx	xx	xx
Total (sum 1 to 2)		xx	xx	xx
II. Uses of funds				
1. Subloans to partner organization xx (with supporting schedule for qualified sub-borrowers)		xx	xx	xx
2. Subloans to partner organization xx (with supporting schedule for qualified sub-borrowers)		xx	xx	xx
Total (sum 1 to 2)		xx	xx	xx
B. Net cash activity (I - II)				
C. Ending cash balance (A - B)				
D. Cash in bank				
Reconciliation				
Amount advanced by ADB		xx	xx	xx
Add: Amount supplemented by ADB		xx	xx	xx
Present outstanding amount advanced		xx	xx	xx
Closing balance at year-end		xx	xx	xx
Add: Amounts withdrawn and not yet claimed		xx	xx	xx
Deduct: Interest included in closing balance		xx	xx	xx
Total advances accounted for		xx	xx	xx

*Please provide accompanying note disclosure and supplementary schedules necessary to explain the main statement.

**TERMS OF REFERENCE FOR AUDIT OF STATEMENT OF UTILIZATION OF FUNDS AND
SPECIFIC AUDIT ASSURANCE REQUIRED FOR PALLI KARMA SAHAYAK FOUNDATION
(PKSF) AND PARTNER ORGANIZATIONS**

I. OBJECTIVES

1. The objectives of the audit of the project financial statements are to enable the auditor to (i) express an independent and objective opinion as to whether the project financial statements present fairly, in all material respects, or give a true and fair view of the project's financial position, its financial performance and cash flows, and (ii) provide a reasonable assurance opinion over certain specific representations made in the Statement of Compliance.

II. AUDITING STANDARDS

2. The audit is required to be conducted in accordance with International Standards on Auditing (ISA); and International Standards on Assurance Engagements (ISAE). These standards require that the auditor comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the project financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the project financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the project financial statements whether due to fraud or error. In making those risk assessments, the auditor considers the internal control relevant to the entity's preparation and fair presentation of the project financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the project financial statements.

3. In complying with ISA, the auditor will pay particular attention to the following standards:

- (i) ISA 800 – Special Considerations– Audits of Financial Statements Prepared in Accordance with Special Purpose Frameworks.
- (ii) ISA 240 – The Auditor's Responsibilities Relating to Fraud in an Audit of Financial Statements.
- (iii) ISA 250 – Consideration of Laws and Regulations in an Audit of Financial Statements.
- (iv) ISA 260 – Communication with Those Charged with Governance.
- (v) ISA 265 – Communicating Deficiencies in Internal Control to Those Charged with Governance and Management.
- (vi) ISA 330 – The Auditor's Responses to Assessed Risks.

III. PROJECT FINANCIAL REPORTING FRAMEWORK

4. The auditor will verify that the project financial statements have been prepared in accordance with International Public Sector Accounting Standards (IPSAS) promulgated by the International Public Sector Accounting Standards Board (IPSASB), or national equivalents. The executing agency and/or implementing agency are responsible for preparing the project financial statements, not the auditor.

IV. AUDIT DELIVERABLES

A. Audited Project Financial Statements

5. An auditor's opinion providing reasonable assurance over the project financial statements, and project financial statements comprising the following:

- (vii) a statement of cash receipts and payments
- (viii) a statement of budgeted versus actual expenditures
- (ix) a statement of advance account (where applicable)
- (x) a summary statement of expenditures (where applicable)
- (xi) significant accounting policies and explanatory notes

B. Reasonable Assurance Opinion over the Use of Loan Proceeds

6. The auditor will provide a reasonable assurance opinion following ISAE 3000 "Assurance Engagements other than Audits or Reviews of Historical Financial Information" for the following confirmations provided by Management in the Statement of Compliance that the proceeds of the loan were used only for the purpose(s) of the project.

C. Management Letter

7. The auditor will provide a management letter containing, at a minimum, the following:

- (i) any weaknesses in the accounting and internal control systems that were identified during the audit, including any irregularity in the use of the advance fund and statement of expenditures (SOE) procedures (where applicable);
- (ii) recommendations to rectify identified weaknesses;
- (iii) management's comments on the audit recommendations along with the timeframe for implementation;
- (iv) the status of significant matters raised in previous management letters;
- (v) any other matters that the auditor considers should be brought to the attention of the project's management; and
- (vi) details of any ineligible expenditure identified during the audit. Expenditure is considered ineligible if it refers to (i) expenditures incurred for purposes other than the ones intended under the legal agreement(s); (ii) expenditures not allowed under the terms of the legal/financing agreements; and (iii) expenditures incurred in violation of applicable government regulations.

D. Specific Considerations

8. The auditor will, during the course of the audit, pay particular attention to the following:

- (i) the use of external funds in accordance with the relevant legal and financing agreements;
- (ii) the provision of counterpart funds in accordance with the relevant agreements and their use only for the purposes intended;
- (iii) the maintenance of proper books and records;
- (iv) the existence of project fixed assets and internal controls related thereto;
- (v) where the audit report has been issued under ISA 800, it shall include the mandatory Emphasis of Matter paragraph alerting users of the audit report that the project financial statements are prepared in accordance with a special purpose framework and that, as a result, the project financial statements may not be

- suitable for another purpose. The auditor shall include this paragraph under an appropriate heading;
- (vi) where reasonable assurance has been provided using ISAE 3000, the assurance report must contain, among others:
 - a. a statement that the engagement was performed in accordance with ISAE 3000;
 - b. subject matter;
 - c. criteria for measurement;
 - d. a summary of the work performed; and
 - e. the auditor's conclusion.
 - (vii) on the advance fund procedure (where applicable), audit procedures are planned and performed to ensure (a) the advance account (and any sub-accounts) has been managed in accordance with ADB's Loan Disbursement Handbook, (b) the cash balance of the advance account (and any sub-accounts) is supported by evidence, (c) the expenditures paid from the advance account (and any sub-accounts) comply with the approved project purpose and cost categories stipulated in the loan agreement, and (d) the amount of expenditures paid from the advance account (and any sub-accounts) comply with disbursement percentages stipulated in the loan agreement;
 - (viii) adequate supporting documentation has been maintained to authenticate claims stated in the SOE for reimbursement of eligible expenditures incurred and liquidation of advances provided to the advance account (where applicable);
 - (ix) on the SOE procedure (where applicable), audit procedures are planned and performed to ensure that (a) the SOEs have been prepared in accordance with ADB's Loan Disbursement Handbook, (b) the individual payments for expenditures stated in the SOE are supported by evidence, (c) the expenditures stated in the SOEs comply with the approved project purpose and cost categories stipulated in loan agreement, and (d) the amount of expenditures stated in the SOEs comply with disbursement percentages stipulated in the loan agreement; and
 - (x) any weaknesses in internal controls over the procurement process.
 - (xi) All reports must be presented in the English.

9. Public disclosure of the project financial statements, including the auditor's opinion on the audited project financial statements, will be guided by ADB's Access to Information Policy (2018). After review, ADB will disclose the audited project financial statements and the opinion of the auditor on the audited project financial statements no later than 14 calendar days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter and the additional auditor's opinions will not be disclosed.²⁹

V. OTHER MATTERS

A. Statement of Access

10. The auditor will have full and complete access, at all reasonable times, to all records and documents including books of account, legal agreement(s), bank records, invoices and any other information associated with the project and deemed necessary by the auditor.

²⁹ This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2018. *Access to Information Policy*.

11. The auditor will be provided with full cooperation by all employees of PKSF and partner organizations, whose activities involve, or may be reflected in, the annual project financial statements. The auditor will be assured rights of access to banks and depositories, consultants, contractors and other persons or firms hired by the employer.

B. Independence

12. The auditor will be impartial and independent from any aspects of management or financial interest in the entity or project under audit. In particular, the auditor should be independent of the control of the entity. The auditor should not, during the period covered by the audit, be employed by, or serve as director for, or have any financial or close business relationship with the entity. The auditor should not have any close personal relationships with any senior participant in the management of the entity. The auditor must disclose any issues or relationships that might compromise their independence.

C. Auditor Experience

13. The auditor should have adequate staff, with appropriate professional qualifications and suitable experience, including experience in auditing the accounts of projects or entities comparable in nature, size and complexity to the project whose audit they are to undertake. To this end, the auditor is required to provide curriculum vitae of the personnel who will provide the opinions and reports, together with the curriculum vitae of managers, supervisors and key personnel likely to be involved in the audit work. These curriculum vitae should include details of audits carried out by these staff, including ongoing assignments.

PRELIMINARY CLIMATE AND DISASTER RISK SCREENING CHECKLIST³⁰

This preliminary climate and disaster risk screening tool was created to guide and assist PKSF and its partners in identifying and assessing relevant climate and disaster related risks in its areas of operations that could affect its supported projects and/or subprojects and intended beneficiaries.

Results obtained will help identify appropriate measures that can be integrated into the project design and planned operations and maintenance procedures to ensure that significant climate and disaster risks are considered and addressed.

The climate and disaster risk screening tool shall be accomplished for each area of operations, and its results used as basis for evaluation of the projects/subprojects to be supported.

A. General Project Identification

1	Organization name	(Please fill this in)
2	Area of operations	(Please fill this in)
3	Sectors covered	(Please fill this in)
4	Focal person for climate, disaster and environment concerns	(Please fill this in)

B. Natural Hazards and Physical Risks

Risk Factors		Risk Values <i>(Please rate likelihood: Not likely, Likely, Very likely)</i>	Rating Scoring: Not Likely = 0 Likely = 1 Very likely = 2	Remarks <i>(Please provide justification)</i>
1	How likely is the area to be affected by the following hazards:			
a	River flood			
b	Coastal flood			
c	Urban flood			
d	Cyclone			
e	Storm Surge			
f	Landslide			
g	Extreme heat			
h	Water Scarcity / Drought			
i	Earthquake			

³⁰ This template may be amended based on PKSF and PO's needs, in consultation with ADB.

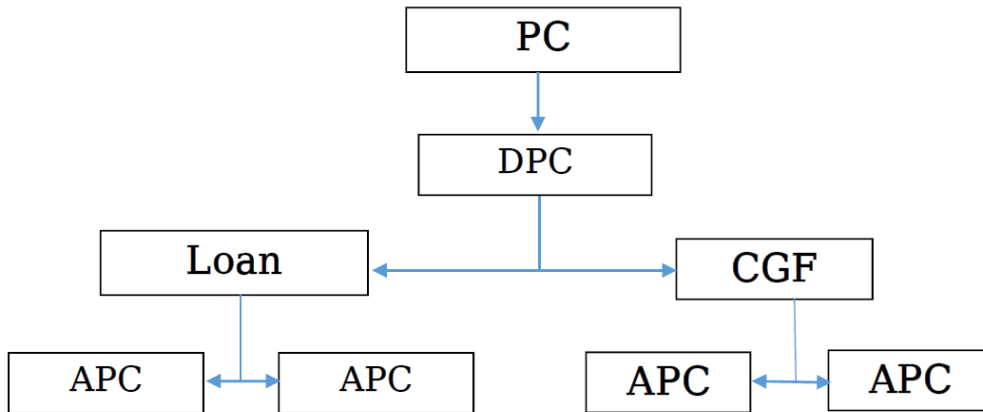
Risk Factors		Risk Values <i>(Please rate likelihood: Not likely, Likely, Very likely)</i>	Rating Scoring: Not Likely = 0 Likely = 1 Very likely = 2	Remarks <i>(Please provide justification)</i>
j	Tsunami			
k	Volcano			
l	Wildfire			
m	Others: (please specify in Remarks) (Kindly refer to Annex II for the list of hazards and examples)			
2	Related to question #1, will projects/subprojects to be located in the area be affected by the identified hazards and/or anticipated climate and disaster risks?			
3	Are intended project stakeholders and/or beneficiaries likely to be affected by the identified natural hazards and climate risks?			
4	Would the project design (e.g., the clearance for bridges) need to consider any extreme weather events and climate induced disasters (e.g., sea-level rise, river overflow, increased wind speed)?			
5	Would weather, and present and future climate conditions (e.g., increasing humidity level, higher temperature contrast between hot days and cold days, exposure to increased wind) likely affect the selection of project inputs (e.g., construction material)?			
6	Would weather, present and future climate conditions, including related extreme weather events affect the operations and maintenance of projects to be setup in the area?			
7	Related to question #6, will the overall performance of the projects be affected throughout its lifetime?			
Risk Rating (Total Score)				

Total Risk Scores	Risk Rating	Description
Low Risk	0 - 2	This indicates that the project proposal has considered risk management measures to minimize hazard impacts and associated risks, and that the project may therefore have a potentially higher threshold against current and anticipated risks.
Moderate Risk	3 - 6	Project exposure and vulnerability to potential risks is very likely. It is highly recommended that a more detailed climate and disaster risk and vulnerability study be undertaken, and that appropriate climate and disaster risk reduction and management measures be incorporated in project design and activities.
High Risk	7 - above	For projects with high risk rating, it is recommended that a risk expert is consulted to ensure project design and activities have integrated appropriate climate and disaster risk reduction and management measures.

Additional remarks:

Prepared and Submitted by: (Name, designation, and affiliation)	(Please fill this in)
Date:	(Please fill this in)
Checked by: (Name, designation, and affiliation)	(Please fill this in)
Date:	(Please fill this in)

PROJECT IMPLEMENTATION UNIT ORGANOGRAM



PC= Project Coordinator, DPC= Deputy Project Coordinator, APC= Assistant Project Coordinator, CGF= Credit Guarantee Fund