

Project Administration Manual

Project Number: 36200-023
November 2015

People's Republic of Bangladesh: Second Small and
Medium-Sized Enterprise Development Project

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

The Bank and Financial Institutions Division of the Ministry of Finance (MOF-BFID) as the Executing Agency (EA) and Bangladesh Bank (BB) 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 Government and ADB's policies and procedures. ADB staff is responsible to support implementation including compliance by MOF-BFID and BB of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

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

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

Abbreviations

ADB	=	Asian Development Bank
BB	=	Bangladesh Bank
BSCIC	=	Bangladesh Small and Cottage Industries Corporation
CDTA	=	Capacity Development Technical Assistance
DMF	=	design and monitoring framework
DPD	=	deputy project director
EA	=	executing agency
FIL	=	financial intermediary loan
GOB	=	Government of Bangladesh
GDP	=	gross domestic product
IA	=	implementing agency
LIBOR	=	London interbank offered rate
MOF-BFID	=	Ministry of Finance-Bank and Financial Institutions Division
NGOs	=	nongovernment organizations
PAM	=	project administration manual
PD	=	project director
PFI	=	participating financial institution
PMU	=	project monitoring unit
PPMS	=	project performance management system
PMR	=	performance monitoring report
QPR	=	quarterly progress report
RRP	=	report and recommendation of the President to the Board
SC	=	steering committee
SME	=	small and medium enterprise
SMEF	=	SME Foundation
SMEDP1	=	Small and Medium Enterprise Development Project
SMEDP2	=	Second Small and Medium Enterprise Development Project
SMESPD	=	Small and Medium Enterprise and Special Programmes Department
SOE	=	statement of expenditure
SPS	=	Safeguard Policy Statement
SPRSS	=	summary poverty reduction and social strategy
TA	=	technical assistance

I. PROJECT DESCRIPTION

1. The Second Small and Medium Enterprise Development Project (SMEDP2) is aimed at accelerating the development of small and medium-sized enterprises (SMEs) in Bangladesh, especially SMEs in rural and nonurban areas, by improving their access to medium- and long-term credit. The project comprises a credit facility of \$200 million for enhancing access to medium- to long-term financing through participating financial institutions (PFIs) to eligible small and medium enterprises located outside the metropolitan areas of Dhaka and Chittagong.

2. **Impact and outcome.** The impact will be continued economic growth and poverty reduction through the development and growth of the SME sector outside the metropolitan areas of Dhaka and Chittagong, aligned with the SME Strategy Paper for the Government's forthcoming 7th Five-Year Plan (2015–16 to 2019–20).¹ The outcome is the number and size of commercially viable SMEs, as well as employment in the SME sector increased.

3. **Output 1: Increased medium- and long-term credit, especially to SMEs, SME clusters, and BSCIC estates in rural areas.** SMEDP2 will comprise a credit line of \$200 million for enhancing access to medium- to long-term financing through PFIs to eligible SMEs, SME clusters, and Bangladesh Small and Cottage Industries Corporation (BSCIC) estates outside the metropolitan areas of Dhaka and Chittagong.² The credit line will enhance credit delivery, in particular to priority sectors consistent with the national industrial strategy for promoting exports and value-added industries, especially to those SMEs located in the nonurban and/or rural areas of the country. The proposed intervention will be structured in 2 components as follows:

- (i) **Component A** will comprise 2/3 of the credit line (\$133.3 million) and cater to the smaller companies of the SME sector. This will include companies organized under the cottage, and micro and small segment of the SME sector. A special focus will be on small enterprises with operations in remote and rural regions. 15% under this component (i.e. \$20 million) will be earmarked for lending to qualified female entrepreneurs.
- (ii) **Component B** will comprise the remaining 1/3 of the \$200 million credit line (\$66.7 million). The proceeds under this component will be onlent by the PFIs towards the medium-sized companies within the SME sector.

4. **Output 2: Strengthened capacity of SME entrepreneurs to access bank financing.** The output will support establishment of incubation facilities at educational institutions to promote entrepreneurship by (i) identifying areas (industry and/or sector) for incubation facilities' support, (ii) developing a country strategy with detailed action plans (and cost estimates) for incubation facilities, (iii) designing guidelines for the selection and graduation of entrepreneurs applying for business incubation services, and (iv) establishing sex-disaggregated performance monitoring system for incubation facilities.

5. **Output 3: Strengthened managerial and technical capacity of small and medium-sized enterprise support institutions (Bangladesh Bank, SME Foundation, BSCIC) and participating financial institutions for small and medium-sized enterprise cluster financing.** The output will assist in the development of SME clusters and BSCIC estates by strengthening the backward and forward linkages of SMEs to the larger, more formal sectors

¹ <http://www.plancomm.gov.bd/7th-five-year-plan>

² Bangladesh Small and Cottage Industries Corporation has developed a total of 74 industrial estates throughout the country to foster the growth of small and cottage industries in a balanced manner.

such as the export industry.³ Capacity development to SME support institutions will facilitate cluster financing by strengthening SME entrepreneurs' ability to form alliances, clustering, and networking so that small firms will compete, grow, and cooperate with larger firms and by sensitizing PFIs' officials to actively promote loans to SME clusters and BSCIC estates.

6. Output 4: Enhanced women-led small and medium-sized enterprises' access to bank finance and financial services. The output will enhance the capacity of Women Entrepreneurs' Development Units (WEDUs) at BB head office and 9 branches, and women's dedicated desks of PFIs by (i) standardizing PFI procedures for responding to the needs of women's entrepreneurs; (ii) facilitating dialogue, cross-fertilization of practices among PFIs to synthesize best practices in assisting women entrepreneurs; and (iii) monitoring of progress in women's access to and use of financial resources and services of PFIs. The output will also enhance capacity of small women entrepreneurs by supporting the development of an informal network of PFIs and the WEDU at BB head office and branches, local women's business associations to discuss access to finance constraints and best practices used by women themselves to overcome these obstacles. The output will also improve financial and legal literacy of women entrepreneurs in preparing business plans, financial projections, and proposals to seek financing from PFIs.

7. Challenge fund. Following a request of BB, the concept of a challenge fund will be introduced in SMEDP2—on a pilot basis—for an amount of \$20 million, to better align PFIs' comparative advantage as a lender and catalyze funds from the financial sector into specific target areas to provide a wider range of financial products, create new channels for the delivery of financial services and reach out the most disadvantaged groups with the ultimate goal of stimulating long-term inclusive pro-poor economic growth.⁴ Potential focal areas that could be targeted under this concept are: (i) disadvantaged geographical regions of Bangladesh with high incidences of poverty; (ii) specific subsectors of the SME sector that lack particular access to finance; or (iii) new financial products and services tailor-made to the needs of the target SME groups. The implementation and operationalization of the challenge fund will be overseen by a fund manager. A panel drawn from a pool of independent experts will review and approve applications from the PFIs on the basis of the following key indicators: (i) inclusiveness (creation of sustainable jobs, especially for women, young people and disadvantaged groups); (ii) alignment with the fund objectives (new investment in productive sectors, improving financial access for SMEs; launching financial products for SMEs); (iii) commitment, experience and expertise of the PFIs to execute the plan; (iv) proposed onlending rates to the subborrowers; and the maximum amount that each PFI is willing to borrow. The proceeds from the challenge fund will be allocated according to the rankings based on the above criteria and pre-defined weightings assigned to each indicator. It is expected that a maximum of 5 PFIs will be selected to participate. Funds not utilized by the winning PFIs within a period of 3 years will be

³ A cluster is an agglomeration of small and medium enterprises (SMEs) producing the same and/or similar products and/or services or engaged in the same line of manufacturing activities or services, located within an identifiable and, as far as practicable, contiguous area. The underlying principle of cluster financing is that SMEs are partnering together to share certain common responsibilities, functions, and facilities—but remain competitors in all other respects. Typically, SME clusters are organized in the legal form of a special purpose vehicle (SPV) which can be a company (for profit or not for profit), a cooperative society, or a trust.

⁴ Challenge funds are no new instruments. They made their entrance into the development landscape with early experiments providing direct support to the private sector in the late 1990s. In the past 15 years, a number of donors—principally the Department for International Development (DFID), but also Australia's Department of Foreign Affairs and Trade (DFAT) and the Swedish International Development Agency (SIDA)—have spent about £850 million on this aid modality for at least 15 projects. A large proportion of these funds have been disbursed through enterprise challenge funds which target private sector entities that are intended to create jobs and incomes.

transferred back to the main corpus under SMEDP2. The introduction of such a challenge fund would be complementary to the normal disbursement process under SMEDP2.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities

Indicative Activities	2015							2016				Responsible Unit
	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	
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
ADB Board approval								▲				ADB
Government approval (issuance of government resolution)								▲				MOF
Loan and project agreements signing									▲			ADB, MOF, BB, PFIs
Government legal opinion provided									▲			MOF, MOJ
Technical Assistance Project Proposal (TPP) approved by GoB										▲		MOF
Acceptable project management unit in each PFI formed									▲			PFIs
ADB confirms acceptability of PFI's' use of the subproject screening checklist										▲		PFIs
Onlending arrangements are in place											▲	ADB, BB, PFIs
Signing of the subsidiary loan agreements between MOF and PFIs										▲		BB, PFIs
Loan effectiveness											▲	ADB

ADB = Asian Development Bank, BB = Bangladesh Bank, MOF = Ministry of Finance, MOJ = Ministry of Japan, PFI = participating financial institution.

Source: Asian Development Bank.

III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations—Roles and Responsibilities

1. Steering Committee (SC)

9. For the smooth implementation of the SMEDP2 project within the framework of the SME promotion policy of the Government of Bangladesh (GOB), the SC will be established at ministry level. The members of the SC will be composed as follows:

10. The Chairman will be the Secretary, or a suitable representative, of the Ministry of Finance-Bank and Financial Institutions Division (MOF-BFID, executing agency). The members will be:

- (i) A representative from Bangladesh Bank (implementing agency[IA]),
- (ii) A representative from MOF-BFID,
- (iii) A representative from Economic Relations Division of MOF,
- (iv) A representative from Implementation Monitoring and Evaluation Division of Ministry of Planning,
- (v) A representative from Planning Division of Ministry of Planning,
- (vi) A representative from Ministry of Industries (MOI),
- (vii) A representative from SMEF,
- (viii) A representative from a PFI nominated by BB,
- (ix) A representative from the Federation of Bangladesh Chamber of Commerce and Industry, and
- (x) Others who may be considered necessary by GOB.

11. The role of the Secretariat will be performed by the Project Management Unit (PMU) of BB. ADB will participate as an observer.

12. The principal function of the SC is to discuss and make decisions on policy issues relevant to the implementation and management of the SMEDP2 project, inter alia:

- (i) review, consider, and approval of major policy changes of operating guidelines; supervision of the SMEDP2 project;
- (ii) important issues related to the implementation of the SMEDP2 project, policy formulation for SME development; and
- (iii) any other issues related to the smooth operation of the project.

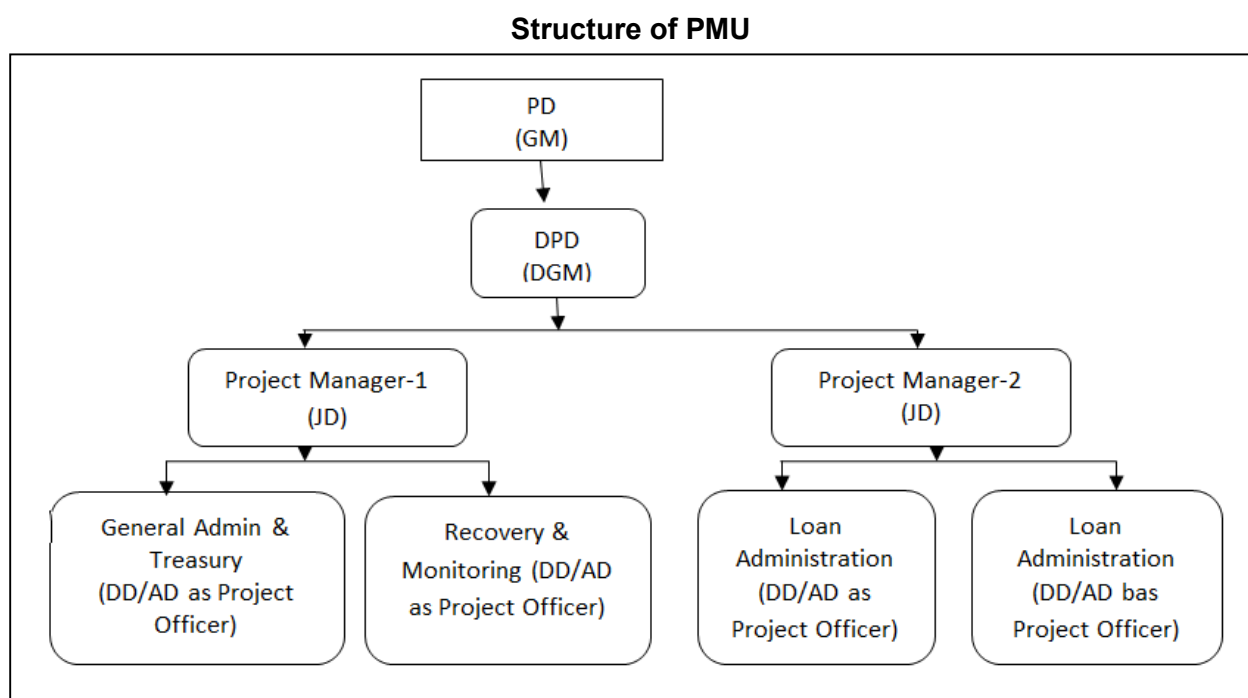
13. The SC will convene at least once every quarter, but can be held on an ad-hoc basis if any issue arises to be discussed immediately.

2. Project Management Unit (PMU)

14. For the purpose of the smooth implementation of the SMEDP2 intervention, a PMU will be established—no later than 1 month after ADB Board approval—at the Small and Medium Enterprise Special Programmes Department (SMESPD) of BB with a Project Director (PD), a Deputy Project Director (DPD), 2 full-time project managers, and the adequate number of staff members who will specifically handle all relevant tasks related to the SMEDP2 project, specifically: (i) an information technology expert (programmer or assistant programmer), (ii) a data entry control operator; and (iii) a member of lower support staff.

15. The PD will be primarily responsible for the project implementation and shall mobilize any further staff resources from BB necessary for the smooth implementation of the project through appropriate authority of BB. The project officials may be posted in the PMU on deputation. SMESPD of BB will assign one Deputy General Manager of the department as DPD. The PMU will be staffed with officials who have prior knowledge on ADB project implementation and management knowledge from similar—other—SME projects.

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



AD = Assistant Director, DD = Deputy Director, DGM = Deputy General Manager, DPD = Deputy Project Director, GM = General Manager, JD = Joint Director, PD = Project Director.

Source: Bangladesh Bank.

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

- (i) General Administration and Treasury Section
- coordination with BB's other departments for general affairs;
 - provision of necessary administrative assistance for other sections of the PMU;
 - due maintenance of the imprest account, the project operating account and the revolving fund account established for the loan administration;
 - instruction to the Accounts and Budgeting Department to transfer funds to be paid by PFI to revolving fund account, BB's revenue account and MOF's revenue account;
 - preparation of statements of the project accounts; and
 - full cooperation to external audit of the imprest account, the project operating account and the revolving fund account as well as to the external audit for Statement of Expenditures.

- (ii) Monitoring and Recovery
- Recovery of subloans from PFIs as per recover schedule,
 - daily monitoring of onlending loans and subloans, and
 - production of quarterly progress reports and project completion report
- (iii) SMEDP2 Administration and Appraisal Section
- conducting the accreditation of PFIs, including annual review;
 - concluding a participation agreement with PFIs,
 - review of subloans applications from PFIs, and
 - approval and disbursement of the funds to PFIs.

Project implementation organizations	Management Roles and Responsibilities
<ul style="list-style-type: none"> • Ministry of Finance (MOF)– Bank and Financial Institutions Division (BFID) 	<ul style="list-style-type: none"> ➤ Acts as executing agency (EA) for the loan and technical assistance (TA) ➤ Responsible for executing the participation agreements with the participating financial institutions (PFIs)
<ul style="list-style-type: none"> • Bangladesh Bank (BB)– Small and Medium Enterprise Special Programmes Department (SMESPD) 	<ul style="list-style-type: none"> ➤ Assess PFI eligibility ➤ Monitor PFIs’ compliance with loan conditions and achievements of the project’s development framework targets ➤ Ensure timely access by PFIs of ADB loan funds ➤ Acts as implementing agency (IA) credit line and TA ➤ Act as IA for the allocation of the loan to the PFIs ➤ Will be responsible for the administration of the imprest account, submission of the withdrawal applications, retention of supporting documents, and any reporting requirements ➤ Act as IA for Outputs 1, 3, and 4 of the TA: (i) establishing incubation facilities at educational institutions to promote entrepreneurship; (iii) strengthening the capacity of BB and the PFIs to ensure the effective functioning of the 8 Women’s ➤ Implement the use of the subproject screening checklist by the PFIs and the Gender Action Plan ➤ Submit to ADB quarterly progress reports within 30 days from the end of each quarter and respond to other information requests ➤ Submit to ADB semi-annual safeguards monitoring report ➤ Monitor PFIs’ compliance with project agreement covenants
<ul style="list-style-type: none"> • Small and Medium Enterprise Foundation (SMEF) 	<ul style="list-style-type: none"> ➤ Acts as IA for Output 2 of the TA: (ii) Assistance in the development of SME clusters and the Bangladesh Small and Cottage Industries Corporation (BSCIC) estates to enhance their capacities to access bank financing
<ul style="list-style-type: none"> • PFIs 	<ul style="list-style-type: none"> ➤ Assess credit worthiness of subborrowers and financial viability of subprojects; ➤ Implement and ensure compliance with the selection criteria for subborrowers, subproject, and subloans; and criteria for the maximum loan size, and covenants in project agreement ➤ Ensure that total subloans (number) to small businesses are issued to at least 15% women-led small businesses under

Project implementation organizations	Management Roles and Responsibilities
	<p>component A of the credit line</p> <ul style="list-style-type: none"> ➤ Ensure that the qualified subborrowers comply with ADB's Safeguard Policy Statement (SPS) and applicable environmental, health and safety, and social laws and regulations of the borrower ➤ Entrepreneurs' Development Unit (WEDU) at the BB branches and women's dedicated desks established at PFIs and provide capacity building of women's entrepreneurs' in selected districts on financial and legal literacy related to access to financial resources and services; and (iv) support to BB to establish an administration unit for the implementation of the proposed innovative elements of SMEDP2 (challenge fund) ➤ Manage budgeting, financial planning, accounting, and auditing of project-related activities ➤ Designate qualified staff to perform the functions of the project implementation unit ➤ Submit to BB annual audited project financial statements that include a management letter and an audit opinion on the use of loan proceeds, compliance with financial covenants ➤
<ul style="list-style-type: none"> • ADB 	<ul style="list-style-type: none"> ➤ Prepare a project completion report to ADB within 6 months from project closing date ➤ Responsible for overall coordination of the project ➤ Provide guidance to BB in regard to implementation of the project ➤ Monitor achievements of the project's targets established in the design and monitoring framework ➤ Conduct field reviews of implementation twice a year ➤ Oversee implementation of attached TA

Source: Asian Development Bank.

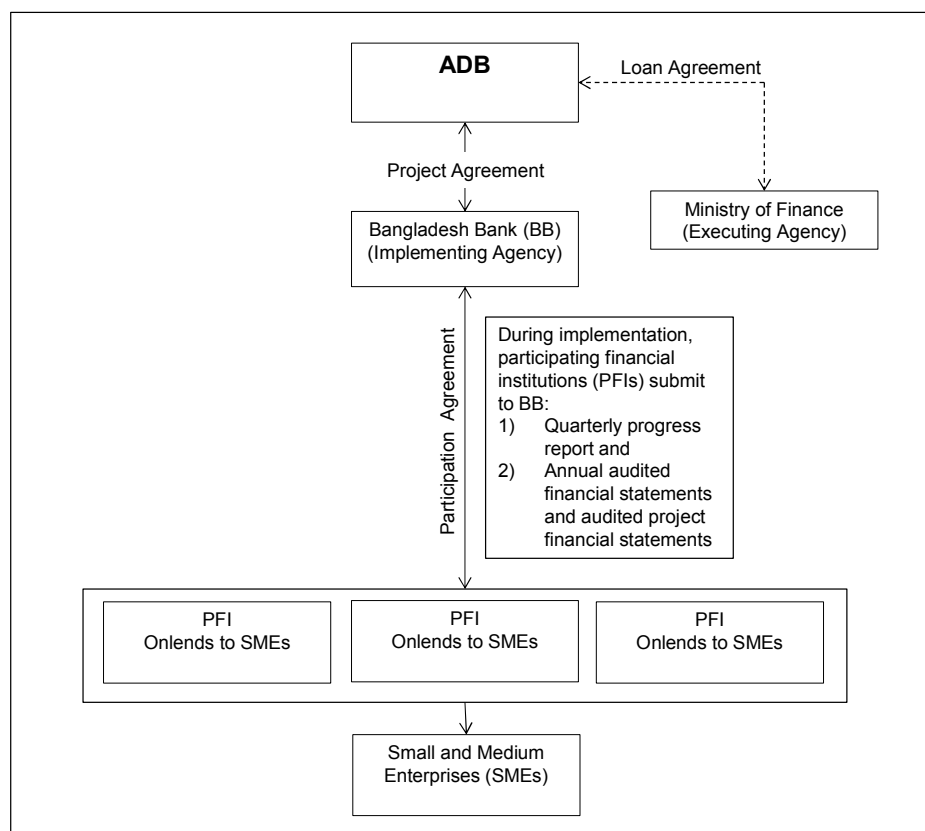
B. Key Persons Involved in the Implementation

<p><u>Executing Agency</u> Bank and Financial Institutions Division, Ministry of Finance</p>	<p>Mr. Md. Harun-Or-Rashid Deputy Secretary Bank and Financial Institutions Division, Ministry of Finance Bangladesh Secretariat Dhaka-1000, Bangladesh Tel. No.: 7165526 E-mail: hrashid7562@gmail.com</p>
<p><u>Implementing Agency (for the credit line)</u> Bangladesh Bank (Central Bank of Bangladesh) Small and Medium Enterprise (SME) and Special Programmes Department</p>	<p>Mr. Swapan Kumar Roy General Manager SMESPD, Motiheel C/A Dhaka-1000, Bangladesh Tel. No.: 880-2-7120947</p>

	Fax No.: 880-2-7119499 E-mail: syed.nazrul@bb.org.bd
<u>Implementing Agency (for output B under CDTA)</u> Small and Medium Enterprise Foundation (SME Foundation)	Mr. Md. Safiqul Islam Managing Director SME Foundation Royal Tower 4 Panthapath Dhaka-1215, Bangladesh Tel. No.: 0088 02 814 2983 / 814 2467 Fax No.: 0088 02 814 3044 E-mail: md@smef.org.bd
<u>Asian Development Bank</u> Public Management, Financial Sector, and Trade Division (SAPF) South Asia Department (SARD)	Mr. Bruno Carrasco Director Fax No.: (63-2) 636-2337 E-mail: bcarrasco@adb.org Mr. Peter Marro Principal Financial Sector Specialist Tel. No.: (63-2) 632-5762 E-mail: pmarro@adb.org

Source: Asian Development Bank.

C. Project Organization Structure



Source: Asian Development Bank.

IV. COSTS AND FINANCING

A. Project Investment and Financing Plan

18. The project investment plan is \$200 million and the project financing plan is estimated at \$333.3 million equivalent. The Government has requested a loan of \$200.0 million from ADB's ordinary capital resources to help finance the credit line of the project. The Government's contribution to the project is proposed at the Taka equivalent of \$50.0 million. The SMEDP2 funding (from Government and ADB combined) will not exceed 75% of individual subproject costs.⁵

Project Investment Plan

Base Costs	Amount (\$ million)
Component A: Small Enterprises	133.3
Component B: Medium Enterprises	66.7
Total Project	200.0

Source: Asian Development Bank.

Project Financing Plan

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank (ordinary capital resources)	200.0	59.6
Cofinancing (Japan Fund for Poverty Reduction)	2.0	1.0
Government (Bangladesh Bank)	50.0	14.8
Participating financial institutions	50.0	14.8
Small and medium enterprises	33.3 ^a	9.8
Total	335.3	100.0

^a The small and medium enterprise (SME) contribution of 10% is based on the assumption that SMEs will contribute 10% of individual subproject cost in form of equity.

Source: Asian Development Bank.

B. Detailed Cost Estimates per Year

Annual Cost Estimates (\$ million)

Output	Allocation	2016	2017	2018	2019
Output 1 (Increased medium- and long-term credit, especially to SMEs, SME clusters, and BSCIC estates in rural areas)	200.0	20.0	50.0	60.0	70.0
Output 2 (Strengthened capacity of SME entrepreneurs to access bank financing)	0.6	0.2	0.2	0.2	0.0
Output 3 (Strengthened managerial and technical capacity of SME support institutions [Bangladesh Bank, SMEF, BSCIC] and PFIs for SME cluster financing)	0.8	0.2	0.2	0.4	0.0
Output 4 (Enhanced women-led small and medium-sized)	0.6	0.2	0.2	0.2	0.0

⁵ It is assumed that small and medium enterprises (SMEs) will contribute 10% of individual subproject cost in form of equity.

Output	Allocation	2016	2017	2018	2019
enterprises' access to bank financing and financial services)					
Total Project Cost	202.0	20.6	50.6	60.8	70.0
% Total Project Cost	100%	10.2%	25%	30.2%	34.6%

Source: Asian Development Bank.

19. The Ministry of Finance (MOF, through its Bank and Financial Institutions Division [BFID]) will onlend to BB the ADB loan in local currency with a repayment of 20-year term including a grace period of 5 years under a subsidiary loan agreement. GOB will bear the foreign exchange risks. BB will relend the proceeds of the ADB loan, along with its own share, to eligible PFIs⁶ for making subloans to eligible subborrowers to finance eligible subprojects at BB rate under a participation agreement.⁷

20. Eligible PFIs will further lend the ADB loan proceeds under a subloan agreement to eligible subborrowers 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 PFI's discretion.⁸ The maximum size for subloans under component A of the credit line will be Tk10 million and Tk30 million under component B of the credit line. The total cost of each subproject will be jointly financed with a subborrower equity contribution of 10%, a PFI debt contribution of 15%, a BB debt contribution of 15% and a contribution from the ADB loan of 60% to maximize leveraging of resources through this project.⁹ Correspondingly, the debt component of each subproject (not to exceed 90% of total project cost) will be financed jointly by ADB, BB and the eligible PFI with the following percentages: 66.6% (ADB), 16.7% (BB) and 16.7% (PFI). While the minimum term of each subloan will be set at 2 years, a maximum of 30% of such a subloan may be used for working capital expenditures of the same subborrower and must be repaid with a minimum term of one year.¹⁰ The minimum term of subloans to women entrepreneurs is one year.¹¹ Subloans will only be provided to finance activities not listed in ADB's Prohibited Investment Activities List and will be subject to post-lending monitoring and review by ADB.

21. At least \$20 million of the ADB loan under Component A will be made available to women-led SMEs, defined as (i) women are the owners or proprietors of a privately-run organization or own at least a 51% share in case of a joint venture or company listed with the Office of the Registrar of Joint Stock Companies and Firms or (ii) at least 60% of the managers are women

C. Disbursement S-Curve

22. As per the Disbursement S-curve in Section IV (Cost and Financing) of the project administration manual (PAM), the disbursement schedule for the project period of 2016–2019 is expected to be in annual amounts of \$20 million, \$50 million, \$60 million, and \$70 million.

⁶ Eligibility criteria for PFIs, subprojects and subborrowers (accessible from the list of linked documents in Appendix 2).

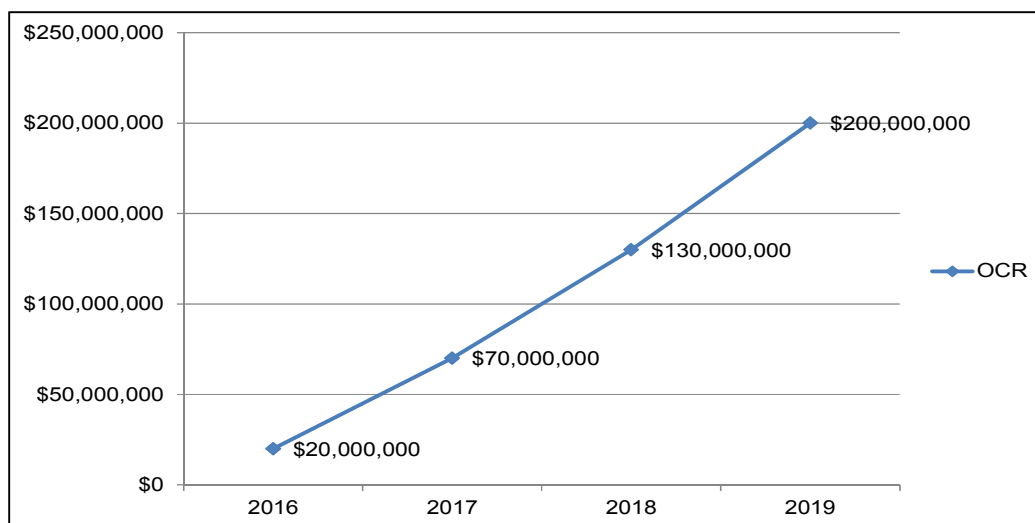
⁷ The BB rate refinances all commercial banks. The BB rate is currently approximately 5% and can be considered a proxy for cost of funds in Bangladesh.

⁸ ADB. 2003. Financial Intermediation Loans. *Operations Manual*. OM Section D6/BP. Manila (15 December).

⁹ Each SME will be required to submit a business plan indicating that it will be able to contribute its 10% equity share.

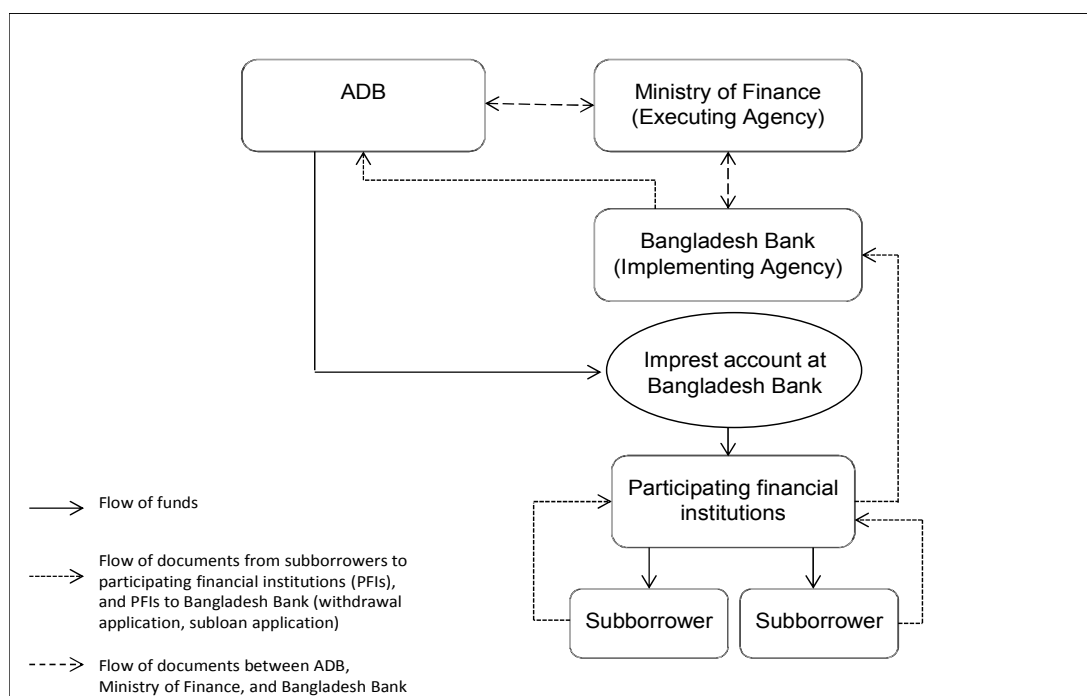
¹⁰ The maximum term of any subloan is 5 years.

¹¹ As per BB's policy, women entrepreneurs will receive ADB funds at interest rates of not more than 10%.



Source: Asian Development Bank.

D. Fund Flow Diagram



Source: Asian Development Bank.

V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

1. Financial Management Assessment of BB

23. A financial management assessment (FMA) has been conducted for BB in accordance with ADB Guidelines for the Financial Management and Analysis of Projects (2005) and

Financial Management Assessment Technical Guidance Note (2015) and focuses on fund flows, staffing, accounting policies and procedures, internal controls, financial reporting and monitoring, and internal and external audit arrangements for the project.¹² The assessment was carried out during June 2015–August, 2015 and draws from (i) a detailed questionnaire completed by the SMESPD at BB, (ii) recent fiduciary assessments conducted in Bangladesh for similar programs and projects such as the 2011 Financial Sector Project for the Development of Small and Medium-sized Enterprises of Japan International Cooperation Agency (JICA)¹³ and the 2015 Financial Sector Support Project of the World Bank,¹⁴ (iii) the most recent Country Program Strategy, in particular the Governance Risk Assessment Summary for Bangladesh,¹⁵ (iv) discussions with officials from BB, (v) desk review of other relevant documentation including information from the operations manual¹⁶ prepared for JICA's Financial Sector Project for the Development of SMEs. The overall financial management risk for BB is assessed as moderate. The basic financial management capacity of the 4 candidate PFIs has been assessed separately as part of the CAMEL assessment and is provided in the linked documents for Financial Analysis of the Report and Recommendation of the President to the Board. Further financial due diligence has been carried for another 16 PFIs that participated under the earlier SME Development Project (SMEDP1) intervention of ADB and can be found in the linked documents as a supplementary appendix.

2. Experience of BB in Managing Credit Assistance Loans

24. The EA for the project will be the MOF-BFID and BB will be the IA. BB was deemed appropriate to administer the project because of BB's ready access to information in determining the financial soundness and capabilities of PFIs for providing credit to the SME sector, and its function as administrator of the Credit Information Bureau, which gathers information regarding borrowers. BB has effectively managed the credit assistance loans under several ADB interventions in the past, namely: the SMESDP and the recent SMEDP1.

25. BB has the necessary financial management arrangements—including procedures for making payments, accounting treatment of transactions, financial reporting, audit of financial statements, and internal control procedures—to avoid misuse or misappropriation of funds and assets. It has successfully undertaken (and is currently undertaking) similar lines of credit from numerous development partners (including JICA, World Bank [WB], Department for International Development [DFID], AFD, among others).

3. Institutional Arrangements

26. The project's credit facility will be administered by well-qualified and experienced professionals in BB's SMESPD who will regularly monitor: (i) PFIs' continued eligibility based on the eligibility criteria,¹⁷ and (ii) eligible disbursements against estimated PFI targets to SMEs at market interest rates¹⁸ consistent with ADB's financial intermediary loan (FIL) policy.¹⁹ To

¹² Available on request.

¹³ Japan International Cooperation Agency. 2011. *Financial Sector Project for the Development of Small and Medium-sized Enterprises*. Tokyo, Japan.

¹⁴ World Bank. 2015. *Financial Sector Support Project*. Washington, DC.

¹⁵ <http://www.adb.org/sites/default/files/institutional-document/33002/files/cps-ban-2011-2015-0.pdf>

¹⁶ Available upon request.

¹⁷ Eligibility Criteria for Participating Financial Institutions, Subborrowers and Subprojects (accessible from the list of linked documents in Appendix 2 of the Report and Recommendation of the President to the Board [RRP]).

¹⁸ As per BB's policy, women entrepreneurs will receive ADB funds at interest rates of not more than 10%.

¹⁹ ADB. 2003. Financial Intermediation Loans. *Operations Manual*. OM Section D6/BP. Manila (15 December).

ensure responsive and timely implementation, there will be review missions in accordance with the project implementation schedule.

27. SMESPD will be responsible for coordinating the inputs of all PFIs, including benefit and impact monitoring reports for consideration by ADB. SMESPD will be responsible for (i) coordinating with relevant PFIs to ensure appraisal and management of subloans; (ii) ensuring that ADB information and reporting requirements related to PFIs and subloans are met; and (iii) ensuring that all necessary submissions of accounts, related financial statements, and disbursement records are duly submitted to ADB.

4. Capacity of BB

28. The coursing of project loan funds will be undertaken through BB to the eligible PFIs for rural and nonurban SME lending. BB was deemed appropriate because of its ready access to information—as the banking sector regulator—pertaining to the continued eligibility of the PFIs, including financial soundness and capabilities of PFIs for providing credit to the SME sector. The regulatory and supervisory capacity of BB has been strengthened through various capacity building initiatives carried out primarily by WB that encompassed support for (i) BB's reorganization and restructuring by reforming human resources policies, outsourcing and training, and skills upgrading of audit and other departments; (ii) training and technical support for the payments and securities clearing and settlements system; (iii) financial market regulation and development; (iv) BB's role in setting corporate governance standards for banks; and (v) BB's key role through its recently introduced policies to combat money laundering and terrorist financing. More recently, the WB has provided capacity building of BB's research department, its prudential regulations and supervision functions, as well as its accounting and auditing functions. The WB is providing further capacity development assistance to BB in 2015 through its Financial Sector Support Project which targets—among other areas—BB's information technology (IT) systems in order to strengthen the financial market infrastructure of Bangladesh.²⁰

29. Adequate safeguards are in place to ensure appropriate use of loan funds since PFIs receive project funds from BB only (i) after PFIs have made disbursements to eligible SMEs, and (ii) PFIs present detailed evidence of these disbursements (subborrower name and location, disbursement amount,) to BB for reimbursement purposes.

5. Staffing Arrangements

30. BB's financial management infrastructure is considered adequate to provide the requisite financial management arrangements for the project, which will be administered by SMESPD, having effectively managed the earlier SMEDP1 intervention of ADB.

31. The position of project director will be assigned to the General Manager of SMESPD. The PD will (i) liaise with ADB, (ii) liaise with all PFIs, and (iii) be responsible for the overall supervision of the project. The position of Deputy PD will be assigned to the Deputy General Manager of SMESPD. The major responsibilities of the Deputy PD will include overseeing the budgeting, accounting, and reporting of all financial transactions related to project implementation under the overall supervision of the PD. For the reporting of all financial transactions, the Deputy PD will be assisted by the appointment of a Finance Officer from SMESPD. For the budgeting and accounting, the Deputy PD will be assisted by the appointment

²⁰ World Bank. 2015. *Financial Sector Support Project*. Washington, DC.

of an accounts officer from SMESPD.

32. Based on the financial management assessment and findings from ADB's due diligence process, SMESPD needs to further strengthen its staff strength particularly in the area of project administration and supervision.

33. For this purpose, \$200,000 may be required—to be borne by Bangladesh Bank—with the following breakdown of the proposed expenditures over the 4-year period of the project implementation.

Breakdown of Proposed Expenditures	
Item	Amount (\$)
Transportation	120,000
Equipment	20,000
Stationary	10,000
Salaries (support staff)	40,000
Miscellaneous	10,000
Total	200,000

Source: Bangladesh Bank.

6. Accounting Policies

34. BB and the PFIs are adopting Bangladesh accounting standards that are primarily based on International Financial Reporting Standards. BB has the necessary capacity to apply International Financial Reporting Standards and to effectively supervise and oversee financial institutions.

7. Information Systems

35. Since MOF-BFID and BB have undertaken (or are currently undertaking) similar lines of credit from numerous development partners (including ADB), the management organization and processing systems of MOF-BFID and BB is in a position to produce satisfactory financial reports that meet the financial reporting requirements of the project. These systems ensure the confidentiality, integrity, and availability of the data. The staff is adequately trained to maintain the systems.

B. Disbursement

1. General

36. The Loan proceeds will be disbursed in accordance with ADB's Loan Disbursement Handbook (2015, as amended from time to time), and detailed arrangements agreed upon between the Government and ADB.²¹ Online training for project staff on disbursement policies and procedures is available at http://wpqr4.adb.org/disbursement_elearning. Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control. BB, as the IA, will be responsible for preparing disbursement projections, collecting, and retaining supporting documents, and preparing and sending withdrawal applications to ADB. No withdrawal shall be made from the Loan Account until the Bangladesh Bank has ensured compliance with the eligibility criteria for the relevant PFIs and entered into Participation

²¹ Available at <http://www.adb.org/documents/loan-disbursement-handbook>.

Agreements with such PFIs, as described in paragraphs 4 and 5 of Schedule 3 in the Loan Agreement.

37. Before submitting the first withdrawal application, BB will submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications together with the authenticated specimen signatures of each authorized person.

38. Separate imprest account shall be established and maintained by BB. The currency of the imprest account is the US dollar. The imprest account is to be used exclusively for ADB's share of eligible expenditures. BB will establish the imprest account in its name and will be accountable and responsible for the proper use of advances to the imprest account.

39. The total outstanding advance to the imprest account should not exceed the estimate of ADB's share of expenditures to be financed from the imprest account for the forthcoming 6 months. BB may request for initial and additional advances to the imprest account based on an Estimate of Expenditure Sheet setting out the estimated expenditures to be financed through the account for the forthcoming 6 months.²² Supporting documents should be submitted to ADB or retained by BB in accordance with ADB's Loan Disbursement Handbook (2015, as amended from time to time) when liquidating or replenishing the imprest account.

40. The PFIs will be responsible for (i) updating and preparing yearly disbursement projections, (ii) preparing and keeping record of SME subloans financed by the ADB loan, and (iii) preparing and sending reimbursement requests to BB.

2. SOE Procedure

41. Statement of expenditure (SOE) procedure may be used for reimbursement of eligible expenditures or liquidation and replenishments of the imprest account.²³ Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review mission, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

3. Recycling of reflows from PFIs

42. There will be a recycling mechanism with a period of 10 years starting from the end of the utilization period. Once funds have been fully disbursed after 4 years, any reflows from repaid subloans to SMEs will be returned back to BB.²⁴ The PFIs can then apply again to BB for funds to be used for making fresh subloans to the SME sector for a total period of 10 years. This will have a significant multiplier effect in terms of the amount of credit that will be routed to the SME sector during the life of SMEDP2. A special revolving funds account will be established for this purpose with BB.

C. Accounting and Auditing Arrangements

43. MOF-BFID will keep a record of the utilization of SMEDP2 and will ensure that the

²² ADB.2015. *Loan Disbursement Handbook*. 10B.

²³ Statement of Expenditure (SOE) forms are available in Appendix 9C of ADB's Loan Disbursement Handbook (2015, as amended from time to time).

²⁴ In the event that the \$200 million funds under SMEDP2 are exhausted earlier than the 4-year utilization period, then the recycling mechanism will be put in place at the time when the funds are fully utilized and will end on the 14th anniversary of SMEDP2.

record-keeping and accounting undertaken by BB follows accounting and financial management procedures acceptable to ADB.

44. The PFIs will also maintain separate books and accounts relating to all subloans financed out of ADB's loan proceeds relating to this project. The PFIs will prepare and submit—through BB—to ADB in the English language within 6 months of the end of the fiscal year according to generally accepted accounting principles of the audited statement of utilization of funds for subloans approved and reimbursed by ADB. The statement of utilization of funds will be prepared using appropriate accounting principles and reporting framework.

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

46. BB will cause the detailed consolidated 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.²⁵ The audited consolidated project financial statements will be submitted in the English language to ADB within 6 months of the end of the fiscal year by BB.

47. The annual audit report for the project financial statements will include audit opinions which cover (i) whether the statement of utilization of funds present a true and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting framework; (ii) whether loan proceeds were used only for the purposes of the project or not; and (iii) the level of compliance for each financial covenant contained in the legal agreements for the project. A management letter shall also be provided, unless already provided with the entity-level financial statements. BB and PFIs shall enable ADB, upon ADB's request, to discuss the financial statements for the project and the IAs' financial affairs where they relate to the project with the auditors appointed as mentioned above, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of the IAs, unless the IAs shall otherwise agree.

48. BB will also cause its entity-level financial statements to be audited in accordance with international standards on auditing and with the Government's audit regulations by an independent auditor acceptable to ADB. The audited entity-level financial statements, together with the auditors' report and management letter, will be submitted in the English language to ADB within one month after their approval by the competent authority.

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

50. The Government and BB have been made aware of ADB's approach on delayed submission, and the requirements for satisfactory and acceptable quality of the audited financial

²⁵ As it was the case in the past, the project accounts are expected to be audited by BB's internal auditor and the Office of the Comptroller and Auditor General.

statements.²⁶ ADB reserves the right to require a change in the auditor (in a manner consistent with the constitution of the BB) 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.

51. Public disclosure of the audit opinion and related consolidated statement of utilization of funds will be guided by ADB's Public Communications Policy (2011).²⁷ After review, ADB will disclose these within 30 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

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

B. Procurement of Goods, Works, and Consulting Services

53. 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 FILs. 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).

54. All consultants and nongovernment organizations (NGOs) under the technical assistance (TA) will be recruited according to ADB's Guidelines on the Use of Consultants.

C. Procurement Plan

55. A procurement plan is not applicable as this project comprises an FIL.

D. Technical Assistance

56. To enhance the sustainability of the project, a capacity development technical assistance (CDTA) for an amount of \$2 million, to be financed by a trust fund on a grant basis and implemented over a period of 3 years, will complement the project outputs. The impact of the TA subproject is the strengthened capacity of SME companies located outside the metropolitan areas of Dhaka and Chittagong to access bank financing. The outcome will be the

²⁶ 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 imprest 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 imprest 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.

²⁷ Available from <http://www.adb.org/documents/pcc-2011?ref=site/disclosure/publications>

enhancement of the managerial and technical capacity of BB, SMEF, and the PFIs under SMEDP2 for SME and SME cluster financing and train SME entrepreneurs on how to form alliances in clustering and networking to help their companies to compete, grow, and cooperate with larger firms. The major outputs and activities of the TA include: (i) establishing incubation facilities at educational institutions to promote entrepreneurship; (ii) assistance in the development of SME clusters and the BSCIC estates to enhance their capacities to access bank financing (to be provided by SMEF); (iii) strengthening the capacity of BB and the PFIs to ensure the effective functioning of the 8 WEDU at the BB branches and women's dedicated desks established at PFIs and provide capacity building of women's entrepreneurs' in selected districts on financial and legal literacy related to access to financial resources and services; and (iv) support to BB to establish an administration unit for the implementation of the proposed innovative elements of SMEDP2 (challenge fund). This output will also include the strengthening of BB's IT systems and IT management so that it can carry out its monitoring and reporting functions under SMEDP2.

57. The CDTA subproject outcomes will be monitored by BB and ADB through consultants' reports, periodic consultations, and review missions. The consultants will be engaged for the implementation activities under the CDTA subproject in accordance with ADB's Guidelines on the Use of Consultants (2010, as amended from time to time).²⁸ The implementation team will comprise international and national experts, subcontracted training institutes, and nongovernmental organizations. The disbursements under the CDTA subproject will be made directly by ADB in accordance with its Technical Assistance Disbursement Handbook.

VII. SAFEGUARDS

58. In accordance with ADB Safeguards Policy Statement (SPS) (2009), the project is classified as FI treated as C for impacts on the environment, involuntary resettlement, and indigenous peoples. The project is expected to have minimal environmental impact as the subloans to SMEs will be mainly for light manufacturing, trade, and service sectors. Similarly, the subloans will be for activities that will not trigger any involuntary resettlements nor have any adverse impact on indigenous people. BB has developed environmental risk management guidelines for banks and FIs. These guidelines were endorsed by the Government on behalf of the PFIs and are mandatory regulations under the Financial Institutions Act, 1993.²⁹ To ensure subprojects comply with applicable government regulations and that loan proceeds will not be used to finance activities that are on ADB's prohibited investment activity list and to exclude subprojects with any involuntary resettlement or indigenous peoples' impact, a subproject screening checklist (Appendix 2) will be made mandatory for implementation of all PFIs under SMEDP2.³⁰ The assessed PCBs have the necessary staff capacity to implement this screening checklist and its implementation will be reviewed by ADB through BB. ADB will ensure that the subproject screening checklist is operational in banks already engaged in ADB projects or will be implemented in those PFIs that have not participated in ADB projects in accordance with ADB requirements before any disbursement of funds from the ADB loan account is made, and will provide capacity building workshops to PCB staff. Each PFI will be required to designate at least one staff member to be responsible for implementation of its subproject screening checklist.

²⁸ Indicative terms of reference are included in the Project Administration Manual and the Technical Assistance (accessible from the list of linked documents in Appendix 2).

²⁹ Available at BB. <https://www.bb.org.bd/aboutus/regulationguideline/guidelist.php>.

³⁰ Environmental and Social Management Arrangements (accessible from the list of linked documents in Appendix 2).

59. ADB shall review and monitor compliance with the environmental and social safeguard requirements of the project. Related to this, BB will assign a staff who will be trained to develop and monitor the subproject screening mechanism and checklist to ensure that ADB's safeguard requirements will be adhered to. The assigned staff from BB will, in turn, train staff from each of the PFIs in implementing and monitoring the screening mechanism through the screening checklist. Each PFI will provide its status of compliance with ADB's safeguard requirements through an annual monitoring report (see Appendix 1).

VIII. GENDER AND SOCIAL DIMENSIONS

60. Potential gender and social impacts were reviewed. A gender assessment is reflected in the project documents and is an integral part of the project design which is categorized thematically as effective gender mainstreaming. The program addresses women's empowerment by narrowing gender disparities through access to financial resources and opportunities. A minimum of \$20 million is earmarked for lending to women entrepreneurs which will promote qualified women entrepreneurs by ensuring access to finance. Furthermore, the associated TA subproject will build women entrepreneurs' capacity to access finance resources and services provided by incubation centers through supporting the Government's endeavor to promote women entrepreneurs and women-led businesses.

61. To meet the project target that at least \$20 million of the total ADB loan amount (under Component A) is onlent to women-led SMEs at the end of the project period, each PFI must demonstrate at the end of the project period that 15% of the subloans made by the PFI are made to women SME subborrowers for companies organized under the cottage, and micro and small segment of the SME sector in Bangladesh.

62. A Gender Action Plan (see below) has been developed. Its implementation will be monitored regularly and ADB will receive an update on the GAP implementation at least semi-annually.

Gender Action Plan

Activities	Targets and Indicator	Responsible Unit	Timeframe
Output 1: Increased medium- and long-term credit, especially to SMEs, SME clusters, and BSCIC estates in rural areas			
1. Conduct baseline survey on indicators related to women entrepreneurs, SME loans, and PFI engagement	Baseline survey conducted	<ul style="list-style-type: none"> • BB WEDUs (HQ and branches) • National organization 	Q1
2. Conduct a business needs assessment to identify profitable and untapped areas for women entrepreneurship	<ul style="list-style-type: none"> • Profitable and untapped areas for women entrepreneurship identified • Entry points of WEs in these areas defined 		Q2
3. Present (during training and forum) the results of business needs assessment to WEs and assist interested WEs in engaging in these businesses and in accessing project credit facility	<ul style="list-style-type: none"> • WEs interested to venture into profitable and untapped areas for women entrepreneurship identified and assisted • A minimum of 15% of Component A under the credit line (\$20 million) 		Q2

Activities	Targets and Indicator	Responsible Unit	Timeframe
	disbursed to WEs in 2015–2019 (2015 baseline: 0)		
4. Establish a sex disaggregated monitoring mechanism on women entrepreneurship in PFIs (included in the manual)	Monitoring system with sex disaggregated data established in all PFIs	<ul style="list-style-type: none"> • BB WEDUs (HQ and branches) • National organization 	Q3 onwards
5. Conduct endline survey on indicators related to women entrepreneurs, SME loans, and PFI engagement (including types and progress of businesses of WEs who received loans under SMEDP2)	Endline survey conducted	<ul style="list-style-type: none"> • PFIs 	End quarter
Output 2: Strengthened capacity of SME entrepreneurs to access bank financing			
6. Conduct workshops with WEs and concerned officials of educational institutions to identify concerns/needs of WEs for consideration in the establishment of incubation facilities in educational institutions	Women entrepreneurs' needs incorporated in the design/development of incubation centers	<ul style="list-style-type: none"> • BB WEDUs (HQ and branches) • National organization 	Q2
7. Establish sex-disaggregated performance monitoring system for incubation facilities	Sex-disaggregated performance monitoring data generated regularly		Q2 onwards
8. Generate periodic/regular performance monitoring reports with sex-disaggregated data			
Output 3: Strengthened managerial and technical capacity of SME support institutions (Bangladesh Bank, SMEF, BSCIC) and PFIs for SME cluster financing			
9. Prepare manual on standard procedures for assisting WEs access financial resources and services, and improve profitability of their businesses; and present to BB for approval	<ul style="list-style-type: none"> • Manual on standard procedures for assisting WEs access financial resources and services, and improve profitability of their businesses approved by BB • Gender-related elements and/or elements addressing needs of WEs incorporated in the needs assessment and training programs of SME, BSCIC, and SME cluster financing 	<ul style="list-style-type: none"> • BB WEDU (HQ) • National organization 	Q1–Q2
10. Conduct capacity development activities for BB WEDU officials at HQ and branch levels	<ul style="list-style-type: none"> • 50 WEDU staff in HQ and branches trained on manual application and in conducting a training on WEs' access to financial services 	<ul style="list-style-type: none"> • BB WEDUs (HQ and branches) • National organization 	Q3 onwards

Activities	Targets and Indicator	Responsible Unit	Timeframe
	<ul style="list-style-type: none"> Plans prepared by WEDU HQ and branch levels on application of manual and conducting training on women entrepreneurs' access to financial services 		
11. Conduct capacity development activities for PFIs on BB circulars for WEs and standard procedures for assisting WEs	<ul style="list-style-type: none"> 100 staff of 10 PFIs oriented on gender sensitive approach to assisting WEs 		Q3
12. Conduct dialogues among BB WEDUs and PFIs on best practices in facilitating access of WEs to financial resources and services	<ul style="list-style-type: none"> At least 4 dialogue sessions conducted Best practices synthesized and disseminated to all PFIs 		2 events in Y2 and 2 events in Y3
Output 4: Enhanced women-led SMEs' access to bank finance and financial services			
13. Provide training on legal literacy, i.e. a clear understanding of the BB circulars related to women entrepreneurs and the different options to access loans from PFIs	<ul style="list-style-type: none"> 10 training workshops conducted At least 350 WEs trained 	<ul style="list-style-type: none"> BB WEDUs (HQ and branches) National organization 	2 training workshops per year
14. Provide training on financial literacy including bookkeeping and accounts and statements, periodical reporting as per PFI requirements	<ul style="list-style-type: none"> 10 training workshops conducted At least 350 WEs trained 		2 training workshops per year
15. Conduct sharing events among BB WEDUs, PFIs, WE associations, and WEs on access of WEs to financial resources and services and progress of businesses	<ul style="list-style-type: none"> At least 3 sharing events conducted Informal network of PFIs formed 		One event per year

BB = Bangladesh Bank, BSCIC = Bangladesh Small and Cottage Industries, HQ = headquarter, PFI = participating financial institutions, SME = small and medium enterprises, SMEDP2 = Second Small and Medium Enterprises Development Project, SMEF = SME Foundation, WEs = women entrepreneurs, WEDU = Women Entrepreneurs' Development Unit.

Source: Asian Development Bank.

63. The Technical Assistance Completion Report (TCR) of the TA piggybacked to SMEDP1 rated the TA project piggybacked to the earlier SMEDP1 intervention as highly successful. The major lessons learned from this TA were:

- (i) Given that ADB is promoting new national NGOs to step up and take on development projects such as the TA mentioned here, more attention needs to be given in building the NGO capacity especially in facilitating administrative and financial tasks. A dedicated financial officer needs to be appointed from ADB to work with the national NGO to ensure that procurement process are transparent

- and smooth, implementation of the TA is efficient and administrative tasks are effectively handled.
- (ii) National NGOs need to learn ADB procurement and financial policies and procedures. If needed, training should be provided to the national NGOs and consultants.
 - (iii) TA subprojects that are attached to a loan needs to be fully harmonized and all stakeholders including the loan team member need to be on board with the TA implementation and monitoring. The team leader needs to own the TA project and have strong governance on the overall TA activity.
 - (iv) There is a need for a dedicated analyst of the TA project who would have an overview on all programmatic and operational activities of the TA. The responsible person will need to liaison with all parties involved in the TA activity and hence ensure that the outcomes of the project are achieved.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

A. Project Design and Monitoring Framework

Impact the Project is Aligned with			
Continued economic growth and poverty reduction through the development of the SME sector outside the metropolitan areas of Dhaka and Chittagong (aligned with the SME Strategy Paper for the government's forthcoming Seventh Five-Year Plan, FY2016–FY2020) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Increase in the number and size of commercially viable SMEs, as well as employment in the SME sector increased	By end of 2019: <ul style="list-style-type: none"> a. Ratio of SME credit to total loans of the banking sector increased to 25% over the next 4 years (2014 baseline: 20.2%)^b b. SME sector employment increased by 5% over the next 4 years (2014 baseline: 38.1 million people employed)^c 	For all indicators: <ul style="list-style-type: none"> a. MOF and PFI annual reports b. Bangladesh Bank annual reports 	PFIs are reluctant to increase lending to SMEs and SME clusters, especially women-led enterprises, since they are still considered risky. Weak economic growth impact, business opportunities, and business climate
Outputs 1. Increased medium- and long-term credit, especially to SMEs, SME clusters, and BSCIC estates in rural areas	By end of 2019: <ul style="list-style-type: none"> 1a. PFIs have fully disbursed the \$200 million credit line to SMEs, SME clusters, and BSCIC estates outside the metropolitan areas of Dhaka and Chittagong (2015 baseline: 0) 1b. A minimum of 15% of component A under the credit line (\$20 million) disbursed to women entrepreneurs in 	1a–1b. Annual progress report submitted by MOF, Bangladesh Bank, and PFIs	PFI lending to SMEs leads to higher nonperforming loans because of operational risks

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	2015–2019 (2015 baseline: 0) 1c. Challenge fund operationalized and \$20 million disbursed through the PFIs to the SMEs by end of December 2016 (2015 baseline: 0)	1c. Quarterly progress report submitted by Bangladesh Bank	
2. Strengthened capacity of SME entrepreneurs to access bank financing	By end of 2018: 2a. At least 15 new incubation facilities at educational institutions established (2015 baseline: 0) 2b. Women entrepreneurs' needs incorporated in the design and development of incubation centers	2a–b. Bangladesh Bank annual report and consultants' report	
3. Strengthened managerial and technical capacity of SME support institutions (Bangladesh Bank, SMEF, BSCIC) and PFIs for SME cluster financing	3a. At least 200 SME entrepreneurs trained on how to form alliances in clustering and networking to help small firms to compete, grow, and cooperate with larger firms; and 50 staff from PFIs trained in SME cluster financing (2015 baseline: 0) 3b. Gender-related elements and/or elements addressing needs of women entrepreneurs incorporated in the needs assessment and training programs on SME, BSCIC, and SME cluster financing	3a–b. Quarterly consultants' monitoring report	
4. Enhanced women-led SMEs' access to bank finance and financial services	4a. Trainers' training program for at least 50 staff of Bangladesh Bank's WEDUs on access to financial services conducted (2015 baseline: 0) 4b. At least 100 staff of PFIs oriented on gender-sensitive approaches to assisting women entrepreneurs (2015 baseline: 0) 4c. At least 400 women entrepreneurs trained in accessing financial services (2015 baseline: 0)	4a. Bangladesh Bank annual report 4b–c. Bangladesh Bank and PFI annual reports	

Key Activities with Milestones

1. Increased medium- and long-term credit for SMEs, SME clusters, and BSCIC estates in rural areas (continuous, beginning no later than Q1 2016)

- 1.1 Establish an administration unit for the challenge fund.
- 1.2 Establish operational rules for the challenge fund.
- 1.3 Pilot fund allocation through the challenge fund.
- 1.4 Disburse funds to PFIs.
- 1.5 Lend from PFIs to SMEs, SME clusters, and BSCIC estates.

2. Strengthened Capacity of SME entrepreneurs to access bank financing (continuous, beginning no later than Q1 2016)

- 2.1 Undertake feasibility study establishing incubation facilities.
- 2.2 Finalize proposals for the incubation facilities.
- 2.3 Identify training modules for incubation facilities.
- 2.4 Conduct training for SME entrepreneurs.

3. Strengthened managerial and technical capacity of SME support institutions (Bangladesh Bank, SMEF, BSCIC) and PFIs for SME cluster financing (continuous, beginning no later than Q3 2016)

- 3.1 Conduct needs assessment for SME entrepreneurs on how to form alliances in clustering and networking.
- 3.2 Assess the need for capacity development of PFIs for financing to SME clusters and BSCIC estates.
- 3.3 Establish an administration unit at SMEF for capacity development support to SME entrepreneurs and PFI staff in SME cluster and BSCIC estate financing.
- 3.4 Design training programs for SME entrepreneurs and PFIs for SME cluster and BSCIC estate financing and conduct seminars and/or training for trainers.

4. Enhanced women-led SMEs' access to bank finance and financial services (continuous, beginning no later than Q2 2016)

- 4.1 Recruit national organization to implement gender components.
- 4.2 Prepare a manual on Bangladesh Bank circulars and directives relating to women entrepreneurs, and on PFI standard lending procedures for small women entrepreneurs.
- 4.3 Train Bangladesh Bank WEDU officials and staff at head office and branches, and key officials and women-dedicated desk staff.
- 4.4 Monitor PFIs' application of the standard procedures for assisting women entrepreneurs.
- 4.5 Conduct sharing events among Bangladesh Bank WEDUs and PFIs on challenges and lessons of lending to women entrepreneurs.
- 4.6 Identify small women entrepreneurs interested in financial and legal literacy.
- 4.7 Train identified small women entrepreneurs.
- 4.8 Conduct multisector sharing events on lessons, challenges, and prospects of women entrepreneurship.

Project Management Activities

Establish a project management unit at the SME Special Programs Department of Bangladesh Bank with a project director, a deputy project director, and two full-time project managers

Conduct project reviews

Government, ADB, and Bangladesh Bank meetings (once every 6 months)

ADB review missions (once every 6 months)

Prepare and submit:

Project monitoring reports (quarterly)

Project review reports (annual and midterm)

Project completion report (Q4 2019)

Key Activities with Milestones			
Inputs:			
ADB:	\$200.0	million (loan)	Technical Assistance
Government:	\$50.0	million	JFPR: \$2.0 million
PFI:	\$50.0	million (others)	
SMEs:	\$33.3	million (beneficiaries)	
Total:	\$333.3	million	
Assumptions for Partner Financing			
Not applicable			

ADB = Asian Development Bank, BSCIC = Bangladesh Small and Cottage Industries Corporation, FY = fiscal year, MOF = Ministry of Finance, PFI = participating financial institution, Q = quarter, SMEs = small and medium-sized enterprises, SMEF = SME Foundation, TA = technical assistance, WEDU = women entrepreneurs' development unit.

^a UNDP. 2015. Government Approved the Five-Year Plan Aiming at Empowering People. 20 October. <http://www.bd.undp.org/content/bangladesh/en/home/presscenter/pressreleases/2015/10/19/the-7th-five-year-plan-like-to-be-approved-by-nec-in-october.html>

^b As per ADB SME Finance Monitoring Report 2014, the total amount of SME loans disbursed by banks was Tk980,330 million which amounted to 20.2% of the total lending of the banking sector of Tk4,854,000 million as per Bangladesh Bank Annual Report 2013–2014.

^c As per data from the SME Foundation.

Source: Asian Development Bank.

B. Monitoring

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

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

66. **Poverty and social action plans.** While Bangladesh has a good record in gender equality and related issues, the unemployment rate of women is higher than men. Based on the more limited employment opportunities, most women become individual entrepreneurs engaged in small trade activities, with limited opportunity for expansion based on limited access to

economic resources. According to recent statistics of BB, women-led companies accounted for only 3.9% of all loans provided to SMEs in Bangladesh in 2014. SMEDP2 is categorized as effective gender mainstreaming because it is expected to promote better monitoring, better outreach, and better access to finance for women entrepreneurs seeking to expand or modernize their businesses.

C. Evaluation

67. To ensure responsive and timely implementation, there will be regular review missions in accordance with the project implementation schedule. There will be regular interaction between the EA, BB, and ADB. Annual performance review will be conducted by the Government, BB, and ADB. In addition, a comprehensive midterm review will be undertaken by the Government, BB, and ADB about 24 months after the project's effectiveness that will (i) evaluate the scope, design, and implementation arrangements; (ii) assess implementation performance against project indicators; (iii) review and establish compliance with loan covenants; and (iv) identify problems and constraints and, if necessary, recommend changes in the design or implementation arrangements.

68. Within 6 months after the loan closing date, the EA and IA will submit a project completion report to ADB in a form acceptable to ADB.³¹ Subsequently, ADB will field a mission to finalize the project completion report.

D. Reporting

69. **Project performance monitoring system (PPMS).** The draft outline for the PPMS will be initially prepared by BB and reviewed and approved by ADB. 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.³²

70. **Quarterly performance monitoring report.** BB—based on inputs from the PFIs—will prepare at the end of each calendar quarter a performance monitoring report (PMR) that will be provided to the EA and ADB. The PMR is the main project progress report of the PPMS. The PMR presents an overview of the most important results expected from the project and the project's implementation progress. The report tracks the project's current objective, components, and assumptions and rates projects in terms of implementation progress and probability of achieving the project's development objective. The report also registers lessons learned and calls for a plan of action to address the issues negatively impacting project implementation or objectives. The report will enable ADB and BB establish a good database and provide useful information from which the portfolio can be analyzed from different points-of-view.

71. The PMR will contain (i) description of progress made during the period; (ii) changes to the implementation schedule, if any; (iii) problems and difficulties encountered and remedial actions taken; (iv) the social, environmental, and economic impacts; (v) the work to be carried out in the next period; and (vi) a summary financial account for the project with expenditures to

³¹ Project completion report format is available at <http://www.adb.org/Consulting/consultants-toolkits/PCR-Public-Sector-Landscape.rar>

³² JICA, under its ongoing "Financial Sector Project for the Development of Small and Medium-Sized Enterprises" intervention has developed a detailed and comprehensive project performance monitoring system which will be used as the basis for the development of ADB's project performance monitoring system.

date.

72. **PFI quarterly progress report.** BB will submit to ADB a consolidated quarterly progress report (QPR) on the utilization of the loan proceeds during the preceding month prepared by the PFIs summarizing the details of the subloans made to eligible SME borrowers. The QPR will contain the following information in a consolidated form on each subloan: (i) original principal amount of each SME loan; (ii) terms including interest rate; (iii) sector of activity; (iv) outstanding principal balance; (v) number of SME employees; (vi) whether the SME is classified as “female;” and (vii) location of the SME. Each report should also highlight any problems encountered during the reporting period.

73. **Annual PFI performance review.** The annual PFI performance review will be submitted annually until 4 years after the completion of the project in the form which the PMU reports the results of its annual review to the EA.

74. **Annual report of each PFI.** The annual report of each PFI will be submitted annually until the end of the project life.

75. **Project completion report.** Within 3 months of the project’s completion, the EA, through BB, will furnish to ADB a project completion report containing a detailed evaluation of project design, costs, PFI performance, social and economic impacts, and other details as may be requested by ADB.

76. **Internal audit reports of the PFIs.** The internal auditors of the PFIs shall include ADB-funded project in their annual work plan for the duration of the project, and shall provide details of their findings to ADB, through BB, at least annually.

E. Stakeholder Communication Strategy

77. ADB will communicate the information about this project and the outcome of this project through its publications, presentations and on its website. ADB will also communicate with the project’s internal stakeholders (MOF, BB, SMEF) through written documents. SME subborrowers would provide information at the time of subloan application and would have personal follow-up interactions with the PFIs. PFIs would communicate with ADB the FIL status through submission of QPRs to the PMU at BB which it will, in turn, forward to ADB. PFIs will also communicate to their staff through training programs, sensitization programs, and workshops to SME subborrowers through public campaigns.

78. The key communication objectives of the project are:

- (i) To inform potential and existing SME entrepreneurs and in particular women entrepreneurs of the opportunities that the project offers including capacity building activities and increased access to credit resources;
- (ii) To empower potential SME and women entrepreneurs and encourage them to enter into business ventures;
- (iii) To strengthen SMEs official network and create a learning environment through sharing of experiences; and
- (iv) To create public support for the project.

X. ANTICORRUPTION POLICY

79. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the program.³³ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the EA 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.

80. 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 BB's PMU and the applicant PFIs. ADB's handbooks on Anticorruption Policy and Anticorruption and Integrity were given to the Government and BB during loan negotiations.

81. 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.³⁴ 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

82. 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.³⁵

XII. RECORD OF PAM CHANGES

83. All revisions/updates during course of implementation should be retained in this Section to provide a chronological history of changes to implemented arrangements recorded in the PAM.

³³ Available at <http://www.adb.org/Documents/Policies/Anticorruption-Integrity/Policies-Strategies.pdf>.

³⁴ ADB's Integrity Office website is available at <http://www.adb.org/integrity/unit.asp>.

³⁵ For further information, see <http://www.adb.org/Accountability-Mechanism/default.asp>.

ENVIRONMENTAL MONITORING REPORT
Bangladesh: Second Small and Medium Enterprise Development Project (SMEDP2)

A. Scope of Participating Financial Institutions (PFIs) Environmental Monitoring of Subborrowers

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

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

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

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

List of Approved SME Subloan

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

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

* PIAL = prohibited investment activity list.

Source: Asian Development Bank.

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

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

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

C. Scope of ADB monitoring of Bangladesh Bank

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

D. Scope of Monitoring Report of Bangladesh Bank to ADB

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

**SUBPROJECT SCREENING CHECKLIST
(including Prohibited Investment Activities List)**

Environmental and Social Impact Assessment Criteria

Screening Questions	Yes	No	Remarks
A. Compliance with laws and/or regulations (for existing SMEs) Is the project in breach of any applicable government environmental, health, safety or social laws, regulations, or guidelines? ¹			If "Yes," exclude from financing under the ADB credit line
B. ADB's Prohibited Investment Activity List Is any of the project activities included in ADB's list of ineligible items in Appendix 1?			If "Yes," exclude from financing under the ADB credit line
C. Projects with minimal or no adverse environmental impacts Is the project to be financed included in the list in Appendix 2 of projects or activities which have minimal or no adverse environmental impacts?			If "No," exclude from financing under the ADB credit line
D. Site of the Project Is the project adjacent to or within any of the following environmentally sensitive areas: (i) Specially protected nature areas/cultural heritage sites/legally protected area/wet land/mangrove/estuarine/special area for protecting diversity (ii) Is the project area or location claimed, used or owned by indigenous communities?			
E. Potential Social Impacts Will the project:			
<ul style="list-style-type: none"> • use land that has been acquired for state needs? 			If "Yes," go to the next section
<ul style="list-style-type: none"> • Result in the removal/displacement of renters/leaseholders or informal land-users (people without legal rights on the land/squatters)? 			If "Yes," exclude from financing under the ADB credit line
<ul style="list-style-type: none"> • Cause people or any community to lose access to natural resources, traditional habitats, or communal facilities? 			If "Yes," exclude from financing under the ADB credit line
<ul style="list-style-type: none"> • Will the project directly or indirectly affect ethnic minorities in the project area which (i) maintain collective attachment to distinct habitats or ancestral territories; (ii) speak a distinct language or dialect; and (iii) has been historically, socially, and economically marginalized or discriminated against? 			If "Yes," exclude from financing under the ADB credit line
Will the credit loan be used for:			
<ul style="list-style-type: none"> • Buying the land, structures (business and residential) 			If "Yes," ensure supporting documents available demonstrating fair and equitable willing seller and buyer transaction

¹ Bangladesh Bank. 2011. *Environmental Risk Management Guidelines for Banks and Financial Institutions in Bangladesh*. Dhaka.

Screening Questions	Yes	No	Remarks
<ul style="list-style-type: none"> • Acquiring the assets or expansion of businesses which will result in the removal or displacements of renters, leaseholders, formal and informal users of the assets <ul style="list-style-type: none"> (i) Acquiring the assets which will cause people or any particular community or groups especially for ethnic minorities or the poor to lose access to: natural resources traditional habitat, customary activities, communal facilities 			If "Yes," exclude from financing under the ADB credit line
<ul style="list-style-type: none"> • Acquiring of assets or expansion of businesses which may facilitate or increase the risk of: <ul style="list-style-type: none"> (i) Violation of the code labor standard, including use child labor; (ii) Marginalization of the ethnic minority groups in the project areas (related to their identity, dignity, livelihood system, cultural uniqueness); and (iii) Human trafficking 			If "Yes," exclude from financing under the ADB credit line

Notes:

1. The Remarks field can be used to comment on screening questions A, B, C, and D. Such comments can, for example, refer to the availability of clearance, permits, or licenses currently being requested from the concerned local government agency, or clarify that small and medium enterprise (SME) is not substantially involved in the production of or trade in alcoholic beverages, or inform that project is located at xx km distance from the protected area.
2. If the answer to questions A, B, and D is "no," and to question C is "yes," the participating financial institution (PFI) may consider the SME for financing.
3. "Project" in this checklist means the investment or economic activity of the SME borrower for which an SME loan is provided.

LIST OF INELIGIBLE ITEMS

No withdrawals shall be made in respect of:

- (i) expenditures for goods included in the following groups or subgroups of the United Nations Standard International Trade Classification, Revision 3 (SITC, Rev. 3), or any successor groups or subgroups under future revisions to the SITC, as designated by ADB by notice to the borrower:
- (ii) expenditures in the currency of the borrower or of goods supplied from the territory of the borrower;
- (iii) expenditures for goods supplied under a contract that any national or international financing institution or agency will have financed or has agreed to finance, including any contract financed under any loan or grant from the ADB;
- (iv) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
- (v) expenditures for narcotics;
- (vi) expenditures for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the borrower or international agreements to which the borrower is a party; and
- (vii) expenditures on account of any payment prohibited by the borrower in compliance with a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations.

Ineligible Items

Chapter	Heading	Description of Items
112		Alcoholic Beverages
121		Tobacco, unmanufactured; tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitute)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum-group metals (excepts watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ore and concentrates)

Source: Asian Development Bank.

INDICATIVE POSITIVE LIST OF PROJECTS BASED ON ENVIRONMENTAL IMPACTS

Code	Category and Subcategory	Likely Impact Level and Prohibition	Remarks
Section A	AGRICULTURE, FORESTRY, AND FISHING		
1	Crop and animal production		
1,11	Growing of cereals (except rice), leguminous crops, and oil seeds	MN	
1,12	Growing of rice	MN	
1,13	Growing of vegetables and melons, roots and tubers	MN	
1,14	Growing of sugar cane	MN	
1,16	Growing of fiber crops (e.g. jute, flax, hemp, cotton)	MN	
1,17	Growing of other non-perennial crops	MN	
1,2	Growing of perennial crops	MN	
1,4	Animal products		
2	Forestry and logging		
2,3	Gathering of wild growing non-wood products	MN	
3	Fishing and aquaculture		
3,1	Fishing		
3,12	Freshwater fishing	MN	
3,2	Aquaculture	MN	
Section C	MANUFACTURING		
11	Manufacture of beverages (distilled alcoholic beverages, wines cider, and other fruit wines, beer malt, mineral waters, and soft drinks)	MN or The Prohibited Investment Activities List may apply.	
14	Manufacture of wearing apparel		
14,1	Manufacture of wearing apparel, except for fur apparel (leather clothes, work wear, outerwear, underwear, other wearing apparel and accessories)	MN	
14,3	Manufacture of knotted and crocheted apparel (knitted and crocheted hosiery, other knitted, and crocheted apparel)	MN	
15	Manufacture of leather and related products		
15,12	Manufacture of luggage, handbags and the like, saddlery and harness (if using readymade materials)	MN	
15,2	Manufacture of footwear	MN	
18	Printing and reproduction of recorded media		
18,1	Printing and service activities related to printing (not Pb-based)	MN	
18,2	Reproduction of recorded media	MN	
25	Manufacture of fabricated metal products, except machinery and equipment		
25,1	Manufacture of structural metal products	MN	
25,2	Manufacture of tanks, reservoirs and containers of metal; manufacture of central heating radiators and boilers; other tanks, reservoirs and containers of metal)	MN	
26	Manufacture of computer, electronic, and optical products		
26,2	Assembly of computers and peripheral equipment	MN	
26,3	Assembly of communication equipment	MN	
26,4	Assembly of consumer electronics	MN	

Code	Category and Subcategory	Likely Impact Level and Prohibition	Remarks
27	Manufacture of electrical equipment		
27,1	Manufacture of electric motors, generators, transformers, and electricity distribution and control apparatus NB: Manufacture of transformers using PCBs is a prohibited activity	The Prohibited Investment Activities List may apply.	
28	Manufacture of machinery and equipment not elsewhere classified		
28,25	Manufacture of non-domestic cooling and ventilation equipment (Note: manufacturing of cooling equipment using ozone depleting substances is EXCLUDED) NB: Some types using banned compounds (CFCs) excluded from assistance using ADB's funds: see Prohibited Investment Activities List	The Prohibited Investment Activities List may apply	
31	Assembly of furniture	MN	
32	Other Manufacturing		
32,1	Manufacturing of jewelry, bijouteries and related articles	MN	
32,2	Manufacture of musical instruments	MN	
32,3	Manufacture of sports goods	MN	
Section D	ELECTRICITY, GAS, STEAM, AND AIR CONDITIONING SUPPLY		
35	Electricity, gas steam, and air conditioning supply		
35,3	Steam and air conditioning supply	MN	
Section F	CONSTRUCTION		
41,1	Development of building projects (without own water supply and energy sources)	MN	
41,2	Construction of residential and non-residential buildings	MN	
43	Specialized construction activities		
43,1	Demolition and site preparation (demolition, site preparation, test drilling and boring)	MN	
43,2	Electrical, plumbing, and other construction installation activities	MN	
43,3	Building completion and finishing (plastering, joinery installation, floor and wall covering, painting and glazing, other building completion and finishing)	MN	
Section G	WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES		
45	Wholesale and retail trade and repair of motor vehicles and motorcycles		
45,1	Sale of motorcycles	MN	
45,2	Maintenance and repair of motor vehicles	MN	
45,3	Sale of motor vehicle parts and accessories	MN	
45,4	Sale, maintenance, and repair of motorcycles, and related parts and accessories	MN	
46	Wholesale trade, except of motor vehicles, and motorcycles		
46,1	Wholesale on a fee or contract basis	MN	
46,2	Wholesale of agricultural raw materials and live animals	MN	
46,21	Wholesale of grain, unmanufactured tobacco, seed and animal feeds; NB: Tobacco is an EXCLUDED activity	MN or excluded/ Check the Prohibited Investment Activities List	
46,22	Wholesale of flowers and plants	MN	

Code	Category and Subcategory	Likely Impact Level and Prohibition	Remarks
46,3	Wholesale of food, beverages and tobacco	MN or excluded; check the Prohibited Investment Activities List	
46,4	Wholesale of Household goods	MN	
46,5	Wholesale of information and communication equipment	MN	
46,6	Wholesale of other machinery, equipment and supplies	MN	
46,7	Other specialized wholesale	MN or excluded; check the Prohibited Investment Activities List	
47	Retail trade, except of motor vehicles	MN	
Section H	TRANSPORTATION AND STORAGE		
49	Land transport and transport via pipelines		
49,1	Passenger rail transport, interurban	MN	
49,2	Freight rail transport	MN	
49,3	Other passenger land transport	MN	
49,4	Freight transport by road and removal services	MN	
51	Air Transport		
51,1	Passenger air transport	MN	
51,2	Freight air transport and space transport	MN	
51,21	Freight air transport	MN	
51,22	Space transport	MN	
52	Warehousing and support activities for transportation	MN	
53	Postal and courier activities	MN	
Section I	ACCOMMODATION AND FOOD SERVICE ACTIVITIES		
55	Accommodation (Hotels)	MN	
56	Food and beverage service activities (restaurants and bars)	MN, or excluded; check the Prohibited Investment Activities List	
Section J	INFORMATION AND COMMUNICATION		
58	Publishing activities	MN	
59	Motion picture, video and television program production, sound recording and music publishing activities	MN	
60	Programming and broadcasting activities	MN	
61	Telecommunications	MN	
62	Computer programming, consultancy and related activities	MN	
63	Information service activities	MN	
Section K	FINANCIAL AND INSURANCE ACTIVITIES		
64	Financial service activities, except insurance and pension funding	MN	
65	Insurance, reinsurance and pension funding, except compulsory social security	MN	

Code	Category and Subcategory	Likely Impact Level and Prohibition	Remarks
66	Activities auxiliary to financial services and insurance activities	MN	
Section LS	REAL ESTATE ACTIVITIES		
68	Real estate activities	MN	
Section N	PROFESSIONAL SCIENTIFIC AND TECHNICAL ACTIVITIES		
69	Legal and accounting activities	MN	
70	Activities of head offices; management consultancy activities	MN	
71	Architectural and engineering activities; technical testing and analysis	MN	
72	Scientific research and development	MN	
73	Advertising and market research	MN	
74	Other professional, scientific and technical activities	MN	
75	Veterinary activities	MN	
Section N	ADMINISTRATIVE AND SUPPORT SERVICE ACTIVITIES		
77	Rental and leasing activities	MN	
77,1	Renting and leasing of motor vehicles	MN	
77,11	Renting and leasing of cars and light motor vehicles	MN	
77,12	Renting and leasing of trucks	MN	
77,2	Renting and leasing of personal and household goods	MN	
77,21	Renting and leasing of recreational and sports goods	MN	
77,22	Renting of video tapes and disks	MN	
77,29	Renting and leasing of other personal and household goods	MN	
77,3	Renting and Leasing of other machinery, equipment and tangible goods	MN	
77,31	Renting and leasing of agricultural machinery and equipment	MN	
77,32	Renting and leasing of construction and civil engineering machinery and equipment	MN	
77,33	Renting and leasing of office machinery and equipment (including computers)	MN	
77,34	Renting and leasing of water transport equipment	MN	
77,35	Renting and leasing of air transport equipment	MN	
77,39	Renting and leasing of other machinery, equipment and tangible goods not elsewhere classified	MN	
77,4	Leasing of intellectual property and similar products, except copy-righted works	MN	
78	Employment activities		
78,1	Activities of employment placement agencies	MN	
78,2	Temporary employment agencies	MN	
78,3	Other human resources provision	MN	
79	Travel agency, tour operator reservation service, and related activities	MN	
79,1	Travel agency and tour operator activities	MN	
79,9	Other reservation service and related activities	MN	
80	Security and investigation activities	MN	
80,1	Private security activities	MN	
80,2	Security systems service activities	MN	
80,3	Investigation activities	MN	
81	Services to buildings and landscape activities	MN	
81,1	Combined facilities support activities	MN	
81,2	Cleaning activities	MN	

Code	Category and Subcategory	Likely Impact Level and Prohibition	Remarks
81,21	General Cleaning of buildings	MN	
81,22	Other buildings and industrial cleaning activities	MN	
81,29	Other cleaning activities	MN	
81,3	Landscape service activities	MN	
82	Office administrative, office support, and other business support activities	MN	
82,1	Office administrative and support activities	MN	
82,11	Combined office administrative service activities	MN	
82,19	Photocopying, document preparation, and other specialized office support activities	MN	
82,2	Activities of call centers	MN	
82,3	Organization of conventions and trade shows	MN	
82,9	Business support service activities not elsewhere classified	MN	
82,91	Activities of collection agencies and credit bureaus	MN	
82,92	Packaging activities	MN	
82,99	Other business support service activities not elsewhere classified	MN	
Section O	PUBLIC ADMINISTRATION AND DEFENCE COMPULSORY SOCIAL SECURITY		
84	Public administration and defense; compulsory and social security	MN	
Section F	EDUCATION		
85	Education	MN	
Section Q	HUMAN HEALTH AND SOCIAL WORK ACTIVITIES		
86	Human health activities	MN	
87	Residential care activities	MN	
88	Other residential care activities	MN	
Section R	ARTS, ENTERTAINMENT AND RECREATION		
90	Creative, arts and entertainment activities	MN	
91	Libraries, archives, museums and other cultural activities	MN	
93	Sports activities and amusement and recreation activities	MN	
Section S	OTHER SERVICE ACTIVITIES	MN	
94	Activities of membership organizations	MN	
95	Repair of computers and personal and household goods	MN	
96	Other personal service activities	MN	
Section T	ACTIVITIES OF HOUSEHOLDS AS EMPLOYERS; UNDIFFERENTIALLED GOODS AND SERVICES PRODUCING ACTIVITIES OF HOUSEHOLDS FOR OWN USE	MN	
97	Activities of households as employers of domestic personnel	MN	
98	Undifferentiated goods—and services—producing activities of private households for own use	MN	

MN = minimal or no adverse impacts.