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GRANT NUMBER 0088/0089-BHU (SF)

GRANT AGREEMENT  
(Special Operations)

(Micro, Small, and Medium-Sized Enterprise Sector Development Project)

between

KINGDOM OF BHUTAN

and

ASIAN DEVELOPMENT BANK

DATED 19 FEBRUARY 2008

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GAS: BHU 39221

## **GRANT AGREEMENT (Special Operations)**

GRANT AGREEMENT dated 19 February 2008 between the KINGDOM OF BHUTAN (the "Recipient") and ASIAN DEVELOPMENT BANK ("ADB").

### WHEREAS

(A) the Recipient has applied to ADB for a grant for the purposes of the Project described in Schedule 1 to this Grant Agreement;

(B) the Recipient has also applied to ADB for a grant from its Special Funds resources in connection with the Micro, Small, and Medium-Sized Enterprise Sector Development Program (hereinafter called the "Program"), and by an agreement of even date herewith (hereinafter called the "Program Grant Agreement"), ADB has agreed to provide a grant to the Recipient from ADB's Special Fund resources in an amount of six million dollars (\$6,000,000);

(C) Part A of the Project will be carried out by Bhutan Development Finance Corporation (hereinafter called "BDFC") and for this purpose the Recipient shall make available to BDFC a portion of the proceeds of the Grant provided for herein upon terms and conditions satisfactory to ADB; and

(D) ADB, on the basis inter alia of the foregoing, has agreed to provide a grant to the Recipient from ADB's Special Funds resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB and BDFC;

NOW THEREFORE the parties agree as follows:

## **ARTICLE I**

### **Grant Regulations; Definitions**

Section 1.01. All provisions of the Special Operations Grant Regulations of ADB, dated 7 February 2005 (the "Grant Regulations"), are hereby made applicable to this Grant Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. The terms defined in the Grant Regulations and the Program Grant Agreement are incorporated into this Grant Agreement unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "BDFC Loan Agreement" means the agreement between the Recipient and BDFC referred to in Section 3.02 of this Grant Agreement;

(b) "Consulting Guidelines" means ADB's Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers dated February 2007, as amended from time to time;

(c) "Cost sharing facility" or "CSF" means the cost sharing facility as described in paragraph 2, Part B, of Schedule 1 to this Grant Agreement;

(d) "EMS" means the environmental management system prepared in accordance with ADB's *Environment Policy* (2002), the Recipient's policies, laws and regulations, and the environmental management system framework as set out in Appendix 11 to the RRP;

(e) "Goods" means equipment and materials to be financed out of the proceeds of the Grant; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(f) "Procurement Guidelines" means ADB's Procurement Guidelines dated February 2007, as amended from time to time;

(g) "Procurement Plan" means the procurement plan for the Project dated 22 October 2007 and agreed between the Recipient and ADB, as updated from time to time in accordance with Procurement Guidelines, Consulting Guidelines, and other arrangements agreed with ADB;

(h) "Project Executing Agency" for the purposes of, and within the meaning of, the Grant Regulations means MOF or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;

(i) "Project Implementing Agency" means each of BDFC and MEA, or any successor thereto acceptable to ADB, which is responsible for implementing its respective parts under the Project as described in paragraph 1 of Schedule 4 to this Grant Agreement;

(j) "Qualified Enterprise" means an enterprise to which BDFC proposes to make or has made a Subloan;

(k) "Qualified Project" means a specific development project to be carried out by a Qualified Enterprise utilizing the proceeds of a Subloan;

(l) "RRP" means ADB's Report and Recommendation of the President to the Board of Directors for this Project;

(m) "Subloan(s)" means a loan(s) made or proposed to be made by BDFC to a Qualified Enterprise for a Qualified Project; and

(n) "Works" means construction or civil works to be financed out of the proceeds of the Grant, and including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

## ARTICLE II

### The Grant

Section 2.01. ADB agrees to make available to the Recipient from ADB's Special Funds resources on terms and conditions set forth in this Agreement an amount of nine million dollars (\$9,000,000).

## ARTICLE III

### Use of Proceeds of the Grant

Section 3.01. The Recipient shall, upon terms and conditions satisfactory to ADB,

(a) lend to BDFC an amount of five million dollars (\$5,000,000) for the purpose of carrying out Part A of the Project, and cause BDFC to apply such proceeds for financing specific development projects by making Subloans for Qualified Projects to Qualified Enterprises in accordance with the provisions of this Grant Agreement and the Project Agreement; and

(b) make available the balance of the proceeds of the Grant to MEA for the purpose of carrying out Parts B and C of the Project, and cause MEA to apply such proceeds to the financing of expenditures on the Project in accordance with the provisions of this Grant Agreement.

Section 3.02. (a) The Recipient shall enter into a loan agreement with BDFC, providing inter alia for the lending of the proceeds of the Grant to BDFC to carry out Part A of the Project, a term of 20 years including a grace period of 5 years, and the rights of the Recipient and ADB with respect thereto. Such BDFC Loan Agreement shall be in form and on terms and conditions acceptable to ADB, and shall be without prejudice to, and without limitation on, the obligations of the Recipient under this Grant Agreement.

(b) The proceeds of the Grant lent to BDFC shall carry an interest rate equivalent to weighted average deposit rate published by RMA from time to time and prevailing on the date of withdrawal. The weighted average deposit rate shall be adjusted at three-monthly intervals.

Section 3.03. (a) Subject to Section 3.03(b) below, the Goods, Works, and consulting services, and other items of expenditure to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant among different categories of such Goods, Works, and consulting services and other items of expenditure shall be in accordance with the provisions of Schedule 2 to this Grant Agreement, as such Schedule may be amended from time to time by agreement between the Recipient and ADB.

(b) Except as ADB may otherwise agree, the proceeds of the Grant lent to BDFC shall be used only for making Subloans to Qualified Enterprises and shall be applied exclusively to the cost of Goods, Works and consulting services and other items of expenditure required to carry out the Qualified Projects in respect of which the Grant was withdrawn.

Section 3.04. Except as ADB may otherwise agree, all Goods, Works, and consulting services to be financed out of the proceeds of the Grant shall be procured in accordance with the provisions of Schedule 3 to this Grant Agreement.

Section 3.05. Withdrawals from the Grant Account in respect of Goods, Works, and consulting services shall be made only on account of expenditures relating to

- (a) Goods which are produced in and supplied from and consulting services which are supplied from such member countries of ADB as shall have been specified by ADB from time to time as eligible sources for procurement, and
- (b) Goods, Works, and consulting services which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.06. The Grant Closing Date for the purposes of Section 8.02 of the Grant Regulations shall be 30 June 2012 or such other date as may from time to time be agreed between the Recipient and ADB.

## **ARTICLE IV**

### **Particular Covenants**

Section 4.01. In the carrying out of the Project and operation of the Project facilities, the Recipient shall perform, and cause to be performed, all obligations set forth in Schedule 4 to this Grant Agreement. The Recipient shall also comply with, and cause BDFC to comply with, Section 6.07 of the Grant Regulations.

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

Section 4.03. The Recipient shall promptly take all actions set forth in Section 6.05 of the Grant Regulations and shall also take all such actions as necessary to enable BDFC to perform its obligations under the Project Agreement. The Recipient shall not take or permit any action which would interfere with BDFC's performance of its obligations.

Section 4.04. (a) The Recipient shall exercise its rights under the BDFC Loan Agreement in such a manner as to protect the interests of the Recipient and ADB and to accomplish the purposes of the Grant.

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

Section 4.05. (a) The Recipient shall (i) maintain, or cause to be maintained, separate accounts for the Project; (ii) have such accounts and related financial statements audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; (iii) furnish to ADB, as soon as available but in any event not later than 6 months after the end of each related fiscal year, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Grant proceeds and compliance with the financial covenants of this Grant Agreement as well as on the use of the procedures for imprest accounts and statements of expenditures), all in the English language; and (iv) furnish to ADB such other information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) The Recipient shall enable ADB, upon ADB's request, to discuss the Recipient's financial statements for the Project and its financial affairs related to the Project from time to time with the auditors appointed by the Recipient pursuant to Section 4.05(a) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of the Recipient unless the Recipient shall otherwise agree.

Section 4.06. (a) The Recipient shall enable ADB's representatives to inspect the Project, the Goods and Works financed out of the proceeds of the Grant, and any relevant records and documents.

(b) The Recipient shall enable ADB's representatives to inspect any Qualified Enterprise, any Qualified Project, the Goods and Works financed out of the proceeds of the Grant, and any relevant records and documents maintained by BDFC.

## **ARTICLE V**

### **Suspension and Cancellation**

Section 5.01. The following are specified as additional events for suspension of the right of the Recipient to make withdrawals from the Grant Account for the purposes of Section 8.01(k) of the Grant Regulations or cancellation of the Grant pursuant to Section 8.02 of the Grant Regulations:

(a) the Recipient shall have failed to perform any of its obligations under the Program Grant Agreement.

(b) the Recipient or BDFC shall have failed to perform any of its obligations under the BDFC Loan Agreement.

## **ARTICLE VI**

### **Effectiveness**

Section 6.01. The following is specified as an additional condition to the effectiveness of this Grant Agreement for the purposes of Section 9.01(e) of the Grant Regulations: the Program Grant Agreement shall have been duly authorized or ratified by, and executed and delivered on behalf of the Recipient, and all conditions precedent to its effectiveness other than the condition requiring the effectiveness of this Agreement shall have been fulfilled.

Section 6.02. A date ninety (90) days after the date of this Grant Agreement is specified for the effectiveness of the Grant Agreement for the purposes of Section 9.04 of the Grant Regulations.

## **ARTICLE VII**

### **Miscellaneous**

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient for the purposes of Section 11.02 of the Grant Regulations.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the Grant Regulations:

#### For the Recipient

Ministry of Finance  
Royal Government of Bhutan  
Thimpu, Bhutan

Facsimile Number:

(009752) 323154

#### For ADB

Asian Development Bank  
P.O. Box 789  
0980 Manila, Philippines

## Cable Address:

ASIANBANK  
MANILA

## Telex Numbers:

29066 ADB PH (RCA)  
42205 ADB PM (ITT)  
63587 ADB PN (ETPI)

## Facsimile Numbers:

(632) 636-2444  
(632) 636-2337.

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

## KINGDOM OF BHUTAN

By   
\_\_\_\_\_  
DASHO YANKI T. WANGCHUK  
Secretary  
Ministry of Finance

## ASIAN DEVELOPMENT BANK

By   
\_\_\_\_\_  
KUNIO SENGA  
Director General  
South Asia Department

## SCHEDULE 1

### Description of the Project

1. The objective of the Project is to provide investment and technical support to facilitate access to credit by MSMEs and to ensure smooth implementation of the policy reforms under the Program.

2. The Project shall consist of the following:

Part A: Increased Access to Market-Based Finance

Establishment of a line of credit to BDFC for providing medium- and long-term finance to MSMEs especially micro, small, and rural-based enterprises.

Part B: Enhanced Business Development Services

Establishment of a cost sharing facility to facilitate demand-oriented private sector business development services and MSME start-ups by cofinancing up to 50% of the cost of the subproject.

Part C: Program Implementation and Institutional Capacity Building

Provision of technical advice and resources to support and facilitate Program implementation, including:

- i) Formulation of MSME development strategy and support for management of CSF;
- ii) Capacity building for introduction of regulatory impact assessment;
- iii) Establishment of a central registry for registration of security interest in movable and immovable properties; and
- iv) Planning the establishment of product standards and capacity building.

3. The Project is expected to be completed by 31 December 2011.

## SCHEDULE 2

### Allocation and Withdrawal of Grant Proceeds

#### General

1. The table attached to this Schedule sets forth the Categories of Goods, Works, services and other items to be financed out of the proceeds of the Grant and the allocation of amounts of the Grant to each such Category (hereinafter called the "Table"). (Reference to "Category" or "Categories" in this Schedule is to a Category or Categories of the Table and reference to "Subcategory" or "Subcategories" in this Schedule is to a Subcategory or Subcategories of a Category).

#### Percentages of ADB Financing

2. Except as ADB may otherwise agree, the items of the Categories listed in the Table shall be financed out of the proceeds of the Grant on the basis of the percentages set forth in the Table.

#### Reallocation

3. Notwithstanding the allocation of Grant proceeds and the withdrawal percentages set forth in the Table,

(a) if the amount of the Grant allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, by notice to the Recipient, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Grant which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and

(b) if the amount of the Grant then allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, by notice to the Recipient, reallocate such excess amount to any other Category.

Provided, however, that any amount of the Grant allocated to Part A: Credit Line to BDFC under Category 1, may not be reallocated to any other Category, nor any amount of the Grant allocated to any other Category be reallocated to Category 1.

#### Disbursement Procedures

4. Except as ADB may otherwise agree, the Grant proceeds for financing Goods, Works, consulting services and other items shall be disbursed in accordance with ADB's "Loan Disbursement Handbook" dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time.

Imprest Accounts; Statements of Expenditures

5. (a) Except as ADB may otherwise agree, the Recipient shall establish immediately after the Effective Date, two imprest accounts at the RMA – one for Part A of the Project, and the other for Part B. The imprest accounts shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. The currency of the imprest accounts shall be Dollar. The sum of the initial amounts to be deposited into the two imprest accounts shall not exceed the lower of (i) the estimated expenditure for the first six months of Project implementation, or (ii) the equivalent of ten (10) percent of the Grant amount.

(b) The statement of expenditures (SOE) procedure may be used for reimbursement of eligible expenditures and to liquidate advances provided into the imprest accounts, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Recipient and ADB. Any individual payment to be reimbursed or liquidated under the SOE procedure shall not exceed the equivalent of \$50,000.

Condition of Withdrawals from Grant Account

6. Notwithstanding any other provision of this Grant Agreement, no withdrawals shall be made from the Grant Account in respect of Part A of the Project until -

(a) BDFC Loan Agreement, in form and substance satisfactory to ADB shall have been duly authorized or ratified by, and executed and delivered on behalf of, the Recipient and BDFC, and shall have become legally valid and binding upon the parties thereto in accordance with its terms; and

(b) receipt by ADB of legal opinion(s) of counsel(s) acceptable to ADB confirming that the BDFC Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Recipient and BDFC, and is legally valid and binding upon the Recipient and BDFC.

TABLE

<b>ALLOCATION AND WITHDRAWAL OF GRANT PROCEEDS (Micro, Small, and Medium-Sized Enterprise Sector Development Project)</b>				
<b>CATEGORY</b>				<b>ADB FINANCING</b>
<b>Number</b>	<b>Item</b>	<b>Amount Allocated [\$]</b>		<b>Percentage and Basis for Withdrawal from the Grant Account</b>
		<b>Category</b>	<b>Subcategory</b>	
1	Part A: Credit Line to BDFC	\$5,000,000		100 percent of total expenditure
2	Part B: Credit Assistance through CSF	\$875,000		100 percent of total expenditure*
3	Part B: Vehicle	\$40,680		100 percent of total expenditure*
4	Part B: Long-term staff and administration costs	\$64,800		100 percent of total expenditure*
5	Part C: Consulting Services	\$2,010,700		
5A	Component 1:MSME Development Policy and Management of CSF		\$1,444,400	100 percent of total expenditure*
5B	Component 3: Establishment of a Central Registry		\$282,500	100 percent of total expenditure*
5C	Component 4: Planning Establishment of Product Standards and Capacity Building		\$283,800	100 percent of total expenditure*
6	Training and workshops (both on-the-job and overseas), including manuals	\$337,000		100 percent of total expenditure*
7	Equipment	\$205,000		100 percent of total expenditure*
8	Unallocated	\$466,820		
	Total	\$9,000,000		

\* Exclusive of taxes and duties imposed within the territory of the Government of Bhutan.

### SCHEDULE 3

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

##### A. General

1. All Goods and Works, and consulting services, to be financed out of the proceeds of the Grant shall be subject to and governed by the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used and not otherwise defined in this Grant Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

##### B. Procurement for Goods and Works

3. Except as ADB may otherwise agree, Goods and Works shall only be procured on the basis of the methods of procurement set forth below:

Shopping (Goods)
Direct Contracting

The methods of procurement are subject to, among other things, the detailed arrangements and threshold values set forth in the Procurement Plan. The Recipient may only modify the methods of procurement or threshold values with the prior agreement of ADB, and modifications must be set out in updates to the Procurement Plan.

##### C. Selection of Consulting Services

4. Quality- and Cost-Based Selection. Except as ADB may otherwise agree, the Recipient shall apply quality- and cost-based selection for selecting and engaging consulting services.
5. The Recipient's standard procedures for selecting and engaging individual consultants, subject to modifications, if any, set out in the Procurement Plan, may be used for selecting and engaging individual consultants under Part B of the Project.

##### D. Industrial or Intellectual Property Rights

6. (a) The Recipient shall ensure that all Goods and Works procured (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.
- (b) The Recipient shall ensure that all contracts for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) of this paragraph.

7. The Recipient shall ensure that all ADB-financed contracts with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

**E. ADB's Review of Procurement Decisions**

8. All contracts for procurement of Goods and Works, and consulting services, shall be subject to prior review by ADB, unless otherwise agreed between the Recipient and ADB and set forth in the Procurement Plan.

## SCHEDULE 4

### Execution of Project and Operation of Project Facilities; Financial Matters

#### Implementation Arrangements

1. The MOF, as the Project Executing Agency, shall be responsible for overall execution, coordination, and supervision of the Project. BDFC shall implement Part A of the Project, and MEA shall implement Parts B and C of the Project.
2. To implement Part B of the Project, MEA shall set up a CSF management unit, which shall be responsible for marketing, project analysis, financial management, and monitoring and evaluation of CSF. The CSF management unit shall be closely integrated with the MSME unit.
3. The PPMU, established under the Program, shall oversee, manage and coordinate implementation of the Project. In particular, PPMU shall oversee the submission of information and analysis, and coordination of the fielding and work of consultants engaged for the Project.

#### Subloan Eligibility Criteria

4. Under Part A of the Project, the Recipient shall cause BDFC to ensure that the Subloans will –
  - (i) finance new loans to be advanced by BDFC, and not be used to refinance the existing portfolio of old loans of BDFC;
  - (ii) finance subprojects that are economically and financially viable;
  - (iii) finance subprojects that comply with the Recipient's environmental laws and regulations, and ADB's *Environmental Policy* (2002);
  - (iv) not finance housing, equity, staff or personal loans; and
  - (v) not finance items or activities on ADB's exclusion list, as set out in Appendix 12 to the RRP.
5. MSMEs with an initial capital investment (i.e. paid in capital and long-term credit) of up to Nu100 million shall be eligible to apply for Subloans.

#### Subloan Financing Parameters

6. The Recipient shall cause BDFC to ensure that the selection of MSME subprojects shall be based on, but not limited to the subproject's (i) domestic demand and export potential; (ii) potential for development based on competitiveness study, supply chain, and value added analyses; (iii) factor endowments; and (iv) development impacts.

7. The Recipient shall cause BDFC to ensure that (i) it does not approve any Subloan for a single borrower exceeding Nu2 million, (ii) Subloans shall be for a maximum term of seven (7) years, including a grace period of up to one (1) year, and (iii) there is a wide dispersion of Subloans.
8. The Recipient shall cause BDFC to charge interest on Subloans at prevailing market rates, based on its cost of funds, plus a spread that covers transaction costs and the risk of Subloans.
9. The Recipient shall cause BDFC to ensure that a minimum of 10% of the loan amount made available to it under the BDFC Loan Agreement shall be earmarked for lending to women entrepreneurs. In the event these funds are not utilized within a period of eighteen (18) months from the Effective Date, such funds shall revert to the general pool.
10. The Recipient shall cause BDFC to ensure that it complies at all times with the Prudential Regulations (2002, as amended from time to time) of the Borrower including norms relating to capital adequacy, single borrower's exposure limit, income recognition, classification, and provisioning of nonperforming assets.
11. The Recipient shall cause BDFC to ensure that the first five micro Subloans (below Nu50,000) and first three small Subloans (below Nu100,000) are submitted to ADB for prior concurrence. Subsequent Subloans shall be subject to post-monitoring and review by ADB.

#### Subloan Safeguards

12. The Recipient shall ensure, and cause BDFC to ensure, that no subproject is financed through Subloans, or otherwise under the Program, that could have a significant adverse environmental impact, and therefore be classified as a Category A project pursuant to ADB's *Environmental Policy* (2002), or which could have a resettlement impact, or affect indigenous peoples, under ADB's safeguard policies.
13. The Recipient shall cause BDFC to implement the EMS and ensure that adequate number of its staff are trained and deployed to conduct environmental due diligence, review, monitoring, and reporting of subprojects in accordance with the EMS.

#### CSF Approval Process

14. Under Part B of the Project, the Recipient shall appoint a five-member appraisal panel comprising representatives from MEA, Ministry of Agriculture, BDFC, and the private sector to review the CSF proposals recommended by the CSF management unit. The appraisal panel shall approve the CSF proposals by a majority vote subject to a quorum of three members. The unit manager of the CSF management unit shall be a full voting member of the appraisal panel.
15. The Recipient shall consider CSF proposals where a long-term strategic benefit is projected. Each CSF applicant shall be required to provide at least one deliverable for each eligible service usage supported by CSF, and the appraisal panel shall accord priority to services that can be easily replicated. While CSF proposals shall be considered on a first come first served basis, the Recipient shall ensure a wide dispersion of CSF grants.

16. CSF grants shall be subject to a floor limit of Nu equivalent of \$1,000 and a maximum limit of Nu equivalent of \$25,000.

17. The Recipient shall encourage CSF grants for group activities covering more than one MSMEs where the benefits are widespread, and shall cause such proposals to be processed as single applications. Notwithstanding the above, no single recipient MSME or group of MSMEs may receive CSF grants in excess of a cumulative limit of Nu equivalent of \$25,000.

#### CSF Eligibility Criteria

18. (a) Under Part B of the Project, the applicants eligible to apply for CSF grants shall include domestically owned MSMEs or service providers with paid-in capital below Nu100 million, who may be private individual MSMEs, recognized groups of MSMEs, individual business service providers or recognized groups of service providers.

(b) Under Part B of the Project, the applicants not eligible for CSF grants shall include parastatals, government entities, and other MSMEs or service providers where the government or its agencies have management control by virtue of being the largest shareholder, or by virtue of having a board majority; or those having a conflict of interest, or a immediate family relationship with any of the government officials involved in the implementation of CSF.

(c) Eligible expenditures under CSF shall include service fees, and expenditures on travel and incidental expenses charged at cost, incurred wholly and exclusively on a CSF-approved service and travel usage. Salaries for staff employed by MSMEs shall not be eligible for CSF, nor would the recurrent costs such as royalty fees and capital expenditures.

#### CSF Project Selection Criteria

19. Under Part B of the Project, the Recipient shall apply the following criteria for selection of subprojects for CSF grants:

- (i) the subprojects must be economically and financially viable;
- (ii) the subprojects must comply with the Recipient's environmental laws and ADB's *Environmental Policy*;
- (iii) the subprojects must not be in ADB's exclusion list as set out in Appendix 12 to the RRP; and
- (iv) the subprojects, must include, but not be limited to, sectors that have (a) domestic demand and export potential, (b) factor endowments, (c) potential for development of MSME based on competitiveness study, supply chain, and value added analyses; and those that are replicable "role models," or with high development impacts.

#### CSF Safeguards

20. The Recipient shall ensure that (i) no subproject is financed under CSF or otherwise under MSME SDP that could have a significant adverse environmental impact, and

therefore be classified as a Category A project pursuant to ADB's *Environmental Policy*, or which could have resettlement impact, or affect indigenous peoples, under ADB's safeguard policies, (ii) it implements the EMS in respect of all subprojects under CSF, and (iii) that adequate number of its staff are trained and deployed to conduct environmental due diligence, review, monitoring, and reporting of subprojects in accordance with the EMS.

#### Anticorruption

21. The Recipient shall ensure that all contracts financed by ADB in connection with the Project shall include provisions specifying the right of ADB to audit and examine the records and accounts of the Project Executing Agency, Project Implementing Agencies, and all contractors, suppliers, consultants, and other service providers as they relate to the Project. The Recipient shall allow and assist ADB's representatives to carry out random spot checks on the work in progress and utilization of funds for the Project.

#### Counterpart Funds

22. The Recipient shall make adequate allocations for the required counterpart funds, and ensure that these are made available in a timely manner to provide facilities for the consultants, finance taxes and duties on equipment, and ensure proper implementation of the Project.

#### Project Performance Management System

23. Within six (6) months of the Effective Date, the Recipient shall cause the PPMU to establish and maintain a comprehensive project performance management system acceptable to ADB. The system shall be linked to the Program, and draw on data from the Project Implementing Agencies.

#### Project Monitoring

24. Without limiting the generality of Section 6.04 of the Grant Regulations, and in addition to the requirements of Section 6.04 of the Grant Regulations, the Recipient shall ensure that the PPMU prepares and submits progress reports, in a format acceptable to ADB concerning the use of Project Grant proceeds, Project administration, and financial management. The Reports shall include: (i) 6 monthly and annual Project implementation reports, (ii) a midterm review report, and (iii) a Project completion report to be submitted no later than six (6) months after Project completion. The reports from the Project Implementing Agencies shall cover (i) expenditures, (ii) activities financed, (iii) a summary of audit issues, and (iv) the progress of implementation of the Project.

#### Project Review

25. The Recipient and ADB shall periodically review the implementation of the Project. ADB shall field regular review missions, including midterm and project completion review missions to coincide whenever possible with the Program reviews. A comprehensive midterm review about eighteen (18) months from the Effective Date shall be undertaken to evaluate the progress. These reviews shall include an evaluation of the Project scope, implementation arrangements, and a review of the performance of the EMS in relation to Parts A and B of the Project.