
LOAN NUMBER 2381-SRI (SF)

LOAN AGREEMENT
(Special Operations)

(Small and Medium Enterprise Regional Development Project)

between

DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

and

ASIAN DEVELOPMENT BANK

DATED 18 DECEMBER 2007

LAS:SRI 36117

LOAN AGREEMENT (Special Operations)

LOAN AGREEMENT dated 18 December 2007 between Democratic Socialist Republic of Sri Lanka ("the Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of the Project described in Schedule 1 to this Loan Agreement;

(B) the Project will be implemented by the Commercial Bank of Ceylon, DFCC Bank, National Development Bank, and Sampath Bank (hereinafter collectively referred to as the "PCBs"), and for this purpose the Borrower shall relend to the Banks the proceeds of the Loan provided for herein upon terms and conditions satisfactory to ADB;

(C) by a Project Agreement of even date herewith between the PCBs and ADB, the PCBs have agreed to undertake certain obligations towards ADB as set forth in the said Project Agreement;

(D) The Borrower intends to enter into an administrative agreement with the Central Bank of Sri Lanka (hereinafter referred to as "CBSL") with respect to the implementation of the Project; and

(E) ADB has agreed to make a loan to the Borrower from ADB's Special Funds resources upon the terms and conditions set forth herein and in the Project Agreement.

NOW THEREFORE the parties agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Special Operations Loan Regulations of ADB, dated 1 January 2006 (the "Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein.

Section 1.02. The definitions set forth in the Loan Regulations are applicable to this Loan Agreement, unless the context requires otherwise. In addition, the following terms have the following meanings:

(a) "AWDR" means the weighted average of the interest rates on all outstanding interest bearing deposits of commercial banks calculated and published by the CBSL on its website;

- (b) “BDS” means business development services;
- (c) “CBSL” means the Central Bank of Sri Lanka and includes any legal successor thereto;
- (d) “FY” means fiscal year commencing each year on 1 January and ending on the following 31 December;
- (e) “Goods” means equipment and materials to be financed out of the proceeds of the Loan; and including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;
- (f) “MOFP” means the Borrower’s Ministry of Finance and Planning and includes any legal successor thereto;
- (g) “PCB” or “PCBs” means any or all of the private commercial or specialized banks referred to in Recital (B) of this Loan Agreement;
- (h) “PIU” means Project Implementation Unit, established in accordance with paragraph 6 of Schedule 5 to this Loan Agreement;
- (i) “Procurement Guidelines” means ADB’s Procurement Guidelines dated February 2007, as amended from time to time;
- (j) “Project Executing Agency” for the purposes of, and within the meaning of, the Loan Regulations means MOFP which is responsible for the carrying out of the Project;
- (k) “PSC” means Project Steering Committee, established in accordance with paragraph 3 of Schedule 5 to this Loan Agreement;
- (l) “RRP” means Report and Recommendations of the President to ADB’s Board of Directors for the Project;
- (m) “Rupees” or “SLRs” means the currency of the Borrower;
- (n) “SME” means small and medium enterprise, which for the purposes of the Project shall be defined as those employing between 10 and 150 staff;
- (o) “SME value chain cluster” refers to those economic groupings of lead firms and SMEs, or commercially viable partnerships between a lead firm or firms and a group of SMEs, for the purpose of achieving economies of scale through bulk purchasing and coordinated product promotion by the lead firm or enhanced competitiveness, market access, technology, and skills transfer from the lead firm;
- (p) “subborrower” means an entity to which a PCB proposes to make or has made a subloan and which meets the eligibility criteria set out in paragraph 15 of Schedule 5 to this Loan Agreement;

(q) "subloan" means a loan made, or proposed to be made, by a PCB out of the proceeds of the Loan together with its own funds to a subborrower for a subproject and which meets the criteria set out in paragraph 13 of Schedule 5 to this Loan Agreement;

(r) "subproject" means a specific project to be carried out by a subborrower using the proceeds of the Loan and which meets the criteria set out in paragraph 16 of Schedule 5 to this Loan Agreement;

(s) "Subsidiary Loan Agreement" means the agreement between the Borrower and each of the PCBs respectively, referred to in Section 3.01 of this Loan Agreement, the key terms and conditions of which are set forth in paragraph 8 of schedule 5 to this Loan Agreement;

(t) "Western Province" means the districts of Colombo, Gampaha, and Kalutara; and

(u) "Works" means construction or civil works to be financed out of the proceeds of the Loan, 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 Loan

Section 2.01. ADB agrees to lend to the Borrower from ADB's Special Funds resources an amount in various currencies equivalent to thirty two million two hundred twenty six thousand Special Drawing Rights (SDR 32,226,000).

Section 2.02. (a) The Borrower shall pay to ADB an interest charge at the rate of one percent (1%) per annum during the grace period, and one and one-half percent (1.5%) per annum thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

(b) The term "grace period" as used in paragraph (a) of this Section means the period prior to payment of the first principal amount of the Loan on the payment date in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 15 May and 15 November in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

Section 2.05. The currency of repayment of the principal of the Loan and the currency of payment of the interest charge for the purposes of Sections 4.03(a) and 4.04 of the Loan Regulations shall be Dollar.

ARTICLE III

Use of Proceeds of the Loan

Section 3.01. (a) The Borrower shall relend the proceeds of the Loan to each PCB under a Subsidiary Loan Agreement upon terms and conditions satisfactory to ADB including those set forth in paragraph 8 to schedule 5 of this Loan Agreement. Such Subsidiary Loan Agreements shall be without prejudice to, and without limitation on, the obligations of the Borrower under this Loan Agreement.

(b) The Borrower shall cause the PCBs to apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of this Loan Agreement and the Project Agreement.

Section 3.02. (a) The amount of the Loan may be withdrawn from the Loan Account to finance (i) the reasonable foreign-currency cost of Goods and Works required for the subproject; and (ii) a portion of the local-currency cost of Goods and Works required for the subproject.

(b) Except as ADB may otherwise agree, the proceeds of each part of the Loan shall be used only for making a subloan to a subborrower in respect of which such part of the Loan was withdrawn from the Loan Account, and shall be applied exclusively to the cost of Goods and Works required to carry out the subproject in respect of which such part of the Loan was withdrawn.

(c) Except as ADB may otherwise agree, all Goods and Works to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.03. Withdrawals from the Loan Account in respect of Goods and Works shall be made only on account of expenditures relating to

- (a) Goods which are produced in and 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 and Works which meet such other eligibility requirements as shall have been specified by ADB from time to time.

Section 3.04. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2011 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall comply with and cause the PCBs to comply with section 6.08 of the Loan Regulations.

(b) In the carrying out of the Project, the Borrower shall perform all the obligations set forth in Schedule 5 to this Loan Agreement to the extent that they are applicable to the Borrower, and cause all other obligations to be performed.

Section 4.02. In addition to the reports and information set forth in section 6.05 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonable request concerning (i) the subborrowers, the subprojects and the subloans; and (ii) the administration, operations, and financial conditions of the PCBs.

Section 4.03. The Borrower shall enable, and cause PCBs to enable, ADB's representatives to inspect any subborrower, any subproject, the Goods and Works financed out of the proceeds of the Loan, and any relevant records and documents maintained by any PCB.

Section 4.04. The Borrower shall promptly take all action set forth in Loan Regulations Section 6.06 and shall take all such actions as necessary to enable the PCBs to perform their obligations under the Project Agreement. The Borrower shall not take or permit any action which would interfere with the PCBs' performance of their obligations.

Section 4.05. (a) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

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

Section 4.06. The Borrower shall (i) maintain separate accounts for the Project; (ii) ensure that accounts and related financial statements are audited annually in accordance with appropriate auditing standards consistently applied by auditors acceptable to ADB, and (iii) submit certified copies of the audited accounts and financial statements in English to ADB within nine months after the end of each fiscal year.

ARTICLE V

Suspension; Cancellation; Acceleration of Maturity

Section 5.01. The following is specified as an additional event for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 8.01(m) of the Loan Regulations: with respect to the part of the Loan to

a respective PCB, if such PCB shall have failed to perform any of its obligations under the respective Subsidiary Loan Agreement including failure to remedy any default within six months of the date of such default.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: the event mentioned in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI

Effectiveness

Section 6.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 9.01(f) of the Loan Regulations: all Subsidiary Loan Agreements, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the Borrower and the PCBs, and shall have become fully effective and binding on the parties thereto in accordance with their terms, subject only to the effectiveness of this Loan Agreement.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 9.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: all Subsidiary Loan Agreements have been duly authorized or ratified and executed and delivered on behalf of, and are legally binding upon the Borrower and the PCBs in accordance with their terms.

Section 6.03. A date ninety (90) days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 9.04 of the Loan Regulations.

ARTICLE VII

Miscellaneous

Section 7.01. Each of the Secretary of MOFP, Deputy Secretary to the Treasury, and Director General, External Resources Department, of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

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

For the Borrower

The Secretary
Ministry of Finance and Planning
Secretariat
Colombo 1, Sri Lanka

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

Cable Address:

SECMINFIN
COLOMBO

Telex Number:

21232 FORAID COLOMBO
21409 FINMIN COLOMBO

Facsimile Number:

(9411) 244-9823
(9411) 244-7633.

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 Loan 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.

DEMOCRATIC SOCIALIST REPUBLIC
OF SRI LANKA

By 

PUNCHI BANDARA JAYASUNDERA
Secretary
Ministry of Finance and Planning

ASIAN DEVELOPMENT BANK

By 

RICHARD W.A. VOKES
Country Director
Sri Lanka Resident Mission

SCHEDULE 1

Description of the Project

1. The expected outcome of the Project is accelerated development of the SME sector outside the Borrower's Western Province which will reduce regional inequalities through increased output and employment generation. The Project aims to (a) provide medium-to-long term credit for SMEs; (b) mainstream best practices in SME financing; (c) create SME value chain clusters in order to accelerate SME development; and (d) improve access to BDS for SMEs.
2. The Project shall comprise the following core component and complementary components:
 - (a) Core Component: the provision of a credit facility to enhance access to medium-to-long term financing for subborrowers through PCBs;
 - (b) Complementary Component 1: Enhancing PCB governance through (i) on-site inspections of the PCBs by CBSL to supervise the PCBs' compliance with CBSL's Code of Corporate Governance for Banks and Financial Institutions, 2002; and (ii) discussion with the PCBs of the same during PSC meetings;
 - (c) Complementary Component 2: Strengthening PCB risk management through (i) monitoring by the PSC of the PCB progress reports under the International Finance Corporation-funded South-Asia Enterprise Development Fund; (ii) discussion of the same with the PCBs during PSC meetings; and
 - (d) Complementary Component 3: Fostering regional SME bankability through the formation of SME value chain clusters and the linking of local venture capital companies with the lead firms of SME value chain clusters.
3. The Project is expected to be completed by 31 December 2010.

SCHEDULE 2**Amortization Schedule****(Regional Small and Medium Enterprise Development Project)**

Payment Due Date	Payment of Principal (Expressed in SDR)*
15-May-2016	671,375.00
15-Nov-2016	671,375.00
15-May-2017	671,375.00
15-Nov-2017	671,375.00
15-May-2018	671,375.00
15-Nov-2018	671,375.00
15-May-2019	671,375.00
15-Nov-2019	671,375.00
15-May-2020	671,375.00
15-Nov-2020	671,375.00
15-May-2021	671,375.00
15-Nov-2021	671,375.00
15-May-2022	671,375.00
15-Nov-2022	671,375.00
15-May-2023	671,375.00
15-Nov-2023	671,375.00
15-May-2024	671,375.00
15-Nov-2024	671,375.00
15-May-2025	671,375.00
15-Nov-2025	671,375.00
15-May-2026	671,375.00
15-Nov-2026	671,375.00
15-May-2027	671,375.00
15-Nov-2027	671,375.00
15-May-2028	671,375.00
15-Nov-2028	671,375.00
15-May-2029	671,375.00
15-Nov-2029	671,375.00
15-May-2030	671,375.00
15-Nov-2030	671,375.00
15-May-2031	671,375.00
15-Nov-2031	671,375.00
15-May-2032	671,375.00
15-Nov-2032	671,375.00
15-May-2033	671,375.00
15-Nov-2033	671,375.00
15-May-2034	671,375.00
15-Nov-2034	671,375.00
15-May-2035	671,375.00
15-Nov-2035	671,375.00
15-May-2036	671,375.00
15-Nov-2036	671,375.00

Payment Due Date	Payment of Principal (Expressed in SDR)*
15-May-2037	671,375.00
15-Nov-2037	671,375.00
15-May-2038	671,375.00
15-Nov-2038	671,375.00
15-May-2039	671,375.00
15-Nov-2039	671,375.00
Total	32,226,000.00

* The figures in this column represent SDR equivalents determined as of the respective dates of withdrawal. The arrangements for payment of each maturity are subject to the relevant provisions of the Special Operations Loan Regulations.

SCHEDULE 3**Allocation and Withdrawal of Loan Proceeds**General

1. The thirty two million two hundred twenty six thousand Special Drawing Rights (SDR32,226,000) shall be allocated entirely for the credit facility. The maximum size for each subloan shall be twenty million Rupees (SLRs 20,000,000) of which the maximum percentage funding from the Loan proceeds shall be fifty six and a quarter percent (56.25%).

Imprest Account; Statement of Expenditures

2. (a) Except as ADB may otherwise agree, the Borrower shall establish immediately after the Effective Date, an imprest account at CBSL. The imprest account shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook dated January 2007 (ADB's Loan Disbursement Handbook), as amended from time to time, and detailed arrangements agreed upon between the Borrower and ADB. The currency of the imprest account shall be Dollar. The initial amount to be deposited into the imprest account 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 Loan amount, whichever is less.

(b) Immediately after the Effective Date, each PCB shall establish a second generation imprest account which shall be established, managed, replenished and liquidated in accordance with ADB's Loan Disbursement Handbook.

(c) The statement of expenditures (SOE) procedure may be used to liquidate advances provided into the imprest accounts, in accordance with ADB's Loan Disbursement Handbook and detailed arrangements agreed upon between the Borrower and ADB. Any individual payment to be liquidated under the SOE procedure shall not exceed the equivalent of \$ 200,000.

SCHEDULE 4

Provisions on Procurement

1. All Goods and Works to be financed out of the proceeds of the Loan shall be subject to and governed by the Procurement Guidelines.

2. The Borrower shall ensure that for procurement of Goods and Works to be financed by a subloan, each PCB shall require that the procurement procedures of each subborrower (a) are appropriate under the circumstances; (b) are in accordance with established private sector or commercial practices acceptable to ADB; and (c) comply with the provisions of ADB's Anti-corruption policy of 1998, as amended from time to time.

3. (a) The Borrower shall cause each PCB to 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 Borrower shall cause each PCB to 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.

SCHEDULE 5

Project Management and Implementation; Financial Matters

A. Arrangements and responsibilities for Project Management and Project Implementation

1. Project Executing Agency and Implementing Agencies

1. MOFP shall be the Project Executing Agency and shall have the overall and final responsibility for the timely and satisfactory implementation of the Project.
2. Each eligible PCB shall be an Implementing Agency.

2. Project Steering Committee

3. Within one month of the Effective Date, MOFP shall establish a PSC to oversee Project implementation. The PSC shall be chaired by the Secretary of MOFP or, in his absence, Deputy Secretary, Treasury and shall comprise a representative from CBSL, as well as a representative from each PCB. The PSC may, from time to time, co-opt representatives from other relevant agencies. The PSC shall meet whenever necessary, but not less than once every two months. An ADB representative may attend the PSC meetings.

4. The PSC shall be responsible for (a) monitoring the continued eligibility of PCBs based on the eligibility criteria agreed upon between the Borrower and ADB as set forth in Appendix 6 to the RRP; (b) monitoring eligible disbursements against estimated PCB targets to regional SMEs and SME value chain clusters; (c) fostering dialogue with the PCBs on implementation progress for complementary components 2 and 3 as set forth in Schedule 1 to this Loan Agreement. The chair of the PSC shall be responsible for liaising with ADB.

5. The PSC shall be supported by a secretariat that shall be established within CBSL. The Director of the Regional Development Department at CBSL shall be the Secretariat Project Director. (S)he shall be responsible for (a) liaising with the PSC; (b) liaising with all PIU Project Directors; and (c) the overall supervision of the PSC Secretariat. (S)he shall be supported by an Alternate Secretariat Project Director who shall be the Deputy Director of the Regional Development Department at CBSL, and who shall be responsible for overseeing the budgeting, accounting, and reporting of all financial transactions related to the implementation of the Project. The Alternate Secretariat Project Director shall be supported by a finance officer for the reporting of all financial transactions, and by an accounts officer for all budgeting and accounting matters. Both the finance officer and the accounts officer shall be from CBSL's Regional Development Department.

3. Project Implementation Units

6. Within one month of the Effective Date, each PCB shall establish a PIU in its SME Department. Each PIU shall be responsible for coordinating with the relevant PCB units to ensure that (a) all information and reporting requirements related to PCBs and subloans are met; and (b) all necessary accounts and related financial statements as well as all disbursement records are submitted to the PSC.

7. The Director of the SME Department of each PCB shall be the PIU Project Director for such PCB. (S)he shall be responsible for (a) liaising with the PSC; (b) liaising with the Secretariat Project Director as well as with the other PIU Project Directors; and (c) the overall supervision of the PIU. (S)he shall be supported by an Alternate PIU Project Director who shall be the Deputy Director of the SME Department of each respective PCB and who shall be responsible for overseeing the budgeting, accounting, and reporting of all financial transactions related to the implementation of the allocated funds to each respective PCB. The Alternate PIU Project Director shall be supported by a finance officer for the reporting of all financial transactions, and by an accounts officer for all budgeting and accounting matters. Both the finance officer and the accounts officer shall be from the SME Department of each respective PCB.

B. Project implementation matters

1. Relending and onlending terms and financial issues

8. The Borrower, through CBSL, shall re-lend the proceeds of the Loan in local currency to each PCB for onlending to eligible subborrowers, at the AWDR, under a Subsidiary Loan Agreement which term shall not exceed 20 years and not be less than 15 years. The Borrower shall bear the foreign exchange risk.

9. The allocation of the proceeds of the Loan among the PCBs, and assuming that each PCB remains eligible throughout the Project period, shall be as follows:

- (i) fifteen million dollars (\$15,000,000) equivalent to Commercial Bank of Ceylon;
- (ii) fifteen million dollars (\$ 15,000,000) equivalent to DFCC Bank;
- (iii) ten million dollars (\$10,000,000) equivalent to National Development Bank of Sri Lanka; and
- (iv) ten million dollars (\$10,000,000) equivalent to Sampath Bank.

10. ADB shall have the right to disallow disbursements to any PCB if such PCB no longer satisfies the eligibility criteria agreed upon between the Borrower and ADB as set forth in Appendix 6 to the RRP, until such time as the PCB is able to satisfy such criteria. Such PCB shall be required to remedy any default of eligibility criteria within six months of default and in any event, within the disbursement period of the Loan.

11. The PCB loans shall be disbursed over a period of three (3) years from the Effective Date, subject to a mid-term review after eighteen (18) months from the Effective Date to assess the progress of disbursement. At the end of the three (3) year period, PSC and ADB shall reassess the progress of disbursement as well as the allocation of the proceeds of the Loan to each PCB, based on whether disbursement targets to SMEs by each PCB were reached. Reallocation of the proceeds of the Loan, whether among the PCBs or to a newly eligible PCB, shall be subject to prior agreement between the Borrower and ADB and changes to the Subsidiary Loan Agreement.

12. In the event of default of a PCB of the selection criteria and such PCB's failure to remedy such default (as referred to in paragraph 10 of this Schedule), the Borrower and ADB shall jointly select a new PCB as an Implementing Agency for the Project, such selection shall be done in accordance with the same eligibility criteria as those applied for the four initial PCBs as set forth in Appendix 6 to the RRP.

13. The Borrower shall ensure that PCBs shall onlend to subborrowers at an interest rate that reflects their cost of funds plus a spread to cover transaction costs and risks. PCBs shall have full autonomy to select subprojects, provided the subprojects comply with the eligibility criteria set out in paragraph 16 of this Schedule. The PCBs shall bear the credit default risk. Each PCB shall ensure that the maximum subloan size shall be 20 million Rupees (SLRs 20,000,000), that each subloan shall not exceed seventy five percent (75%) of total subproject costs, that the Loan proceeds shall not exceed fifty six and a quarter percent (56.25%) of the total subproject costs and that each subloan shall have a minimum term of 4 years.

14. The Borrower shall ensure that a satisfactory financial management system is maintained throughout the duration of the Project.

2. Eligibility criteria for subborrowers and subprojects

15. The Borrower shall cause each PCB to ensure that each subborrower shall satisfy the following criteria in order to be eligible for any financing under the Project:

- (a) the subborrower shall be a start-up SME or an SME undertaking expansion or modernization, provided that its annual turnover does not exceed SLRs three hundred (300) million and its fixed assets – excluding land and buildings – do not exceed SLRs one hundred (100) million; or
- (b) the subborrower shall be a SME value chain cluster.

16. The Borrower shall cause each PCB to ensure that each subproject shall satisfy the following criteria in order to be eligible for any financing under the Project: the subproject shall

- (a) be located outside the Borrower's Western Province;
- (b) be economically and financially viable;
- (c) either be for start-up, expansion, or modernization activities in any of the eligible subsectors as agreed between the Borrower and the ADB, or for financing BDS requirements of SMEs or SME value chain clusters;
- (d) comply with the Borrower's and ADB's environmental and social safeguard policies; and
- (e) not entail any activities that would generate involuntary resettlement, whether permanent or temporary, including for squatters.

3. Safeguard issues

17. The Borrower shall ensure not to relend the proceeds of the Loan to any PCB, unless such PCB shall have recruited the necessary safeguard implementation staff. Each PCB shall ensure that the positions of safeguard implementation staff shall remain filled throughout Project implementation.

18. The Borrower shall ensure that within one month of the Effective Date, each PCB shall have established or updated its Environmental Management System (EMS) in accordance with the EMS framework agreed upon between the Borrower and ADB as set forth in Appendix 5 to the RRP. Each PCB shall implement the Project in full compliance with such EMS, as may be amended from time to time in line with the EMS framework.

4. PCB related matters

19. The Borrower shall cause each PCB to advise PSC (and PSC shall immediately advise ADB) in advance of any major decision on events such as mergers and acquisitions, changes in key management officers, and any charter changes that may have a significant adverse impact on the organization, management, policies, procedures, or operations of such PCB. In such event, the Borrower and ADB jointly, shall have the right to reallocate part of the funds provided under the Loan to the other PCBs or to relend the same to new eligible PCBs.

20. The Borrower shall ensure that throughout Project implementation, each PCB shall (a) be in compliance with all applicable prudential regulations and guidelines of the CBSL as certified by an auditor acceptable to ADB; and (b) maintain at least investment grade of a high credit quality, defined as A- and above (or equivalent) as rated by Fitch Ratings Lanka Ltd (or such other credit rating agency as may be acceptable to ADB) as reflected in an actual credit rating report submitted to CBSL.

21. The Borrower shall through the PSC monitor the PCBs' progress reports under the International Finance Corporation funded South Asia Enterprise Development Facility.

5. Project reviews and reporting

22. The Executing Agency, CBSL, the PCBs, and ADB shall conduct annual performance reviews based on annual progress reports to be prepared by each PCB.

23. The Borrower shall ensure that annual Project reports, prepared by the PSC based on annual progress reports submitted by the PCBs, shall include at least the following information: (a) emerging sector policy issues; (b) continuing compliance of PCBs with agreed eligibility criteria; (c) performance of all PCBs; (d) subproject performance; (e) subborrower repayment performance; (f) subprojects' contribution towards achieving Project objectives; (g) lessons learned; and (h) benefit monitoring in terms of output and employment.

24. In addition to the annual performance review mentioned in paragraph 21 above, the Project Executing Agency, CBSL, the PCBs, and ADB shall conduct a mid-term review (MTR) within eighteen (18) months after the Effective Date. The MTR shall (a) evaluate the scope, design, and implementation arrangements of the Project; (b) assess implementation performance against Project indicators; (c) review and establish compliance with covenants of this Loan Agreement; (d) identify problems and constraints, and if necessary, recommend changes in the design or implementation arrangements.

25. Within three months of the completion of the Project, the Borrower shall ensure that the EA, through the PCBs, furnish to ADB a Project completion report containing a detailed evaluation report of project design, costs, PCB performance, social and economic impact, and other details as may be requested by ADB.

6. Project Performance Monitoring System (PPMS)

26. The Borrower shall cause CBSL and the PCBs at all times throughout Project implementation to maintain a PPMS, satisfactory to ADB, that will be included in the PCBs' management information system. The key performance indicators and assumptions in the design and monitoring framework in Appendix 1 to the RRP shall be the basis for the PPMS. Within four (4) months of the Effective Date, CBSL and the PCBs shall have developed baseline data.