



Project Administration Memorandum

Project Number: 36357
Technical Assistance Loan Number: 2139
October 2005

Sri Lanka: Supporting the Private Sector and Financial Markets Development Program

The project administration memorandum is an active document, progressively updated and revised as necessary, particularly following any changes in project or program costs, scope, or implementation arrangements. This document, however, may not reflect the latest project or program changes.

Asian Development Bank

PROJECT ADMINISTRATION MEMORANDUM

on

LOAN No. 2139-SRI

to

THE DEMOCRATIC SOCIALIST REPUBLIC OF SRI LANKA

for the

TECHNICAL ASSISTANCE LOAN FOR SUPPORTING THE PRIVATE SECTOR AND

FINANCIAL MARKETS DEVELOPMENT PROGRAM

*This Program Administration Memorandum (PAM)
Provides a practical implementation manual for the
Financial Markets Program for Private Sector Development,
with particular reference to the technical assistance loan.*

24 October 2005

CURRENCY EQUIVALENTS

(as of 24 October 2005)

Currency Unit	–	Sri Lanka rupee/s (SLRe/SLRs)
SLRe1.00	=	\$0.010
\$1.00	=	SLRs101.52

(At the time of Inception Mission, the exchange rate was \$1.00 = SLRs99.61)

ABBREVIATIONS

ADB	–	Asian Development Bank
ADF	–	Asian Development Fund
IBSL	–	Insurance Board of Sri Lanka
LA	–	Loan Agreement
MOFP	–	Ministry of Finance and Planning
OCR	–	ordinary capital resources
PBank	–	People's Bank
PSDP	–	Private Sector Development Program
SEMA	–	Strategic Enterprise Management Agency
SME	–	Small- and medium-sized enterprise
SOE	–	State-owned enterprises
TA	–	technical assistance
W/A	–	Withdrawal application form

NOTES

- (i) The fiscal year (FY) of the Government ends on 31 December. FY before a calendar year denotes the year in which the fiscal year ends.
- (ii) In this report, "\$" refers to US dollars.

CONTENTS

LOAN PROCESSING HISTORY		Page Number
I.	THE TA LOAN	
	A. Introduction	1
	B. Objectives and Scope	1
	C. Program Components	1
II.	COST ESTIMATES AND FINANCING PLAN	
	Program Cost Estimates	2
III.	IMPLEMENTATION ARRANGEMENTS	
	Executing and Implementing Agencies	2
IV.	CONSULTANT RECRUITMENT	
	Terms of Reference	3
V.	PROCUREMENT	7
VI.	DISBURSEMENT PROCEDURES	7
VII.	PROGRAM MONITORING AND EVALUATION	9
VIII.	REPORTING REQUIREMENTS AND PROGRAM REVIEW	9
IX.	AUDITING REQUIREMENTS	10
X.	MAJOR LOAN COVENANTS	10
XI.	PARTICULAR TA LOAN COVENANTS	11
XII.	KEY PERSONS INVOLVED AND CONTACT DETAILS	13
XIII.	ANTI-CORRUPTION	14
APPENDIXES		
	1. Policy Matrix	
	2. Schedule 5: Consultants	
	3. Schedule 4: Procurement	
	4. Disbursement Letter	
	5. Sample Progress Report	
	6. Sample Audit Letter	

LOAN PROCESSING HISTORY

Milestones	Dates
Fact Finding Mission	16 Aug – 06 Sep 2004
1 st Management Review Meeting	21 Oct 2004
Appraisal Mission	23 Oct – 02 Nov 2004
2 nd Management Review Meeting	12 Nov 2004
Loan Negotiations	15-16 Nov 2004
Board Consideration and Approval	15 Dec 2004
Loan Agreement Signing	20 Dec 2004
Loan Effectiveness	21 Mar 2005

I. PROJECT DESCRIPTION

A. Introduction

1. The Financial Markets Program for Private Sector Development (the Program) approved by the Asian Development Bank (ADB) in December 2004 is the second subprogram of the cluster loan of the Private Sector Development Program (PSDP). The Program will support PSDP in the creation of an enabling environment for private sector development. The Program and actions are intended to complement the results achieved by the PSDP subprogram I, particularly in the areas of (i) developing financial markets and the private sector's access to finance, and (ii) strengthening the banking system so it becomes more competitive and continue providing banking services to the rural areas by: (a) restructuring the second largest bank in the country, the state-owned bank, People's Bank (PBank); (b) simultaneously implementing performance targets according to the agreed schedule to improve its efficiency and profitability; and (c) recapitalizing the bank in accordance with the phased-in recapitalization plan. The Program consists of two loans: (a) a policy loan, amounting to \$60 million from ADB's ordinary capital resources (OCR) and (b) a technical assistance (TA) loan, amounting to \$5 million equivalent from ADB's Special Funds resources. The policy reforms included in the policy loan is included in the policy matrix (Appendix 1).

B. Objectives and Scope

2. The TA Loan's objective is to provide technical assistance to support the Program. The principal objective of the Program is to facilitate private sector development by strengthening the financial markets, including the restructuring and phased recapitalization of PBank. The scope includes (i) development of financial markets through (a) increasing the availability of financial products and services to the financial market; (b) enhancing corporate governance in the financial market; (c) improving insurance industry regulation; and (ii) strengthening the banking system through (a) improving corporate governance of state-owned commercial banks, and (b) restructuring PBank.

3. In this context, the Program will support the development of financial markets, one of the key constraints of economic growth for the private sector and SMEs. PBank will play a pivotal role in servicing SMEs. As a nationwide bank, it will be able to reach out to businesses as well as to the retail population in all areas of the country.

C. Components

4. The TA loan will have the following components: (i) capacity building and skills development for PBank; (ii) strengthening the insurance industry through capacity building of IBSL; (iii) creating a national computerized movable property registry and provision of computer equipment; (iv) banking expertise to SEMA to improve its ability to manage the four banks in its portfolio and funds to perform an independent review of operations of PBank on a semi-annual basis; and (v) develop the necessary domestic and/or international skills to draft appropriate regulations and legislation for the Program. The five components will be referred to as the Project.

D. Description of the Loan

5. The TA loan of SDR3,318,000, is provided to Sri Lanka and financed from ADB's Special Funds resources. This loan has a term of 32 years, including a grace period of 8 years, and an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter.

II. COST ESTIMATES AND FINANCING PLAN

A. Cost and Financing

6. The total cost of the TA Loan is estimated to be \$6,000,000 equivalent, comprising \$4,527,240 in foreign exchange costs and \$1,472,760 equivalent in local currency costs. ADB will finance \$5,000,000 equivalent, comprising the entire foreign exchange cost and \$472,760 equivalent in local currency. The Government will finance \$1,000,000 of the local currency costs, primarily in kind. Counterpart support will include the provision of facilities for the consulting team, as well as any taxes and duties on equipment. Table 1 contains the detailed cost estimates and the financing plan.

Table 1: Cost Estimates and Financing Plan

Item	Foreign Exchange	Local Currency	Total
A. Asian Development Bank Financing			
1. Consultants			
a. Remuneration			
i. International	2,800,000	0	2,800,000
ii. Domestic	0	128,000	128,000
b. Per Diem	0	0	0
i. International	490,500	0	490,500
ii. Domestic	0	0	0
c. Travel	0	0	0
i. International	115,000	0	115,000
ii. Domestic	0	73,000	73,000
2. Hardware and Software for Movable Property Registry	100,000	30,000	130,000
3. Documentation and Communication	42,700	28,500	71,200
4. Workshops, Training, and Seminars	224,500	140,500	365,000
5. Interest and Commitment Charge	258,159	51,024	309,183
6. Contingencies	496,380	21,737	518,117
Subtotal (A)	4,527,240	472,760	5,000,000
B. Government Financing			
1. Counterpart Facilities: office space, equipment, furniture, and Fixtures	0	310,000	310,000
2. Counterpart Operational Support: communications, secretarial And related services	0	690,000	690,000
Subtotal (B)	0	1,000,000	1,000,000
Total (A+B)	4,527,240	1,472,760	6,000,000

Note: Figures may not add up to totals due to rounding.

Source: Asian Development Bank estimates.

III. IMPLEMENTATION ARRANGEMENTS

A. The Executing and Implementing Agencies

7. The Executing Agency (EA) of the TA will be the Ministry of Finance and Planning (MOFP). The MOFP will establish a co-ordination committee headed by the Secretary of the Treasury composed of representatives from the Implementing Agencies: IBSL, the Department of Census and Statistics, MOFP, PBank, and SEMA. The committee will have the authority to make decisions that are essential to ensure the progress of the TA. The committee will meet as needed, but at least once every six months and will be responsible for the overall guidance and direction of the TA, coordinate the TA, review and approve the recruitment of consulting services and procurement of equipment under the TA, and will prepare, review and approve the TA reports. The TA is planned to commence when the Program loan comes into effect, and will be completed over a period of three years with a completion date of December 2007.

IV. CONSULTANT RECRUITMENT

8. The TA loan will require about 112 person-months of international consulting services and 32 person-months of domestic consulting services (Appendix 2). Consultants will be individually recruited under the TA loan. All consultants will be financed from the TA loan, and will be selected and engaged in accordance with *ADB's Guidelines on the Use of Consultants* and other arrangements satisfactory to ADB for the engagement of domestic consultants. The outline terms of reference for the consultants are below.

A. Terms of Reference

1. Credit and Financial Risk Management Expert (1 international, 24 person-months)

9. The expert will have extensive international experience in credit analysis, credit management and portfolio risk management working for an international financial institution, preferably in an emerging market. Experience working in Sri Lanka and/or elsewhere in South Asia will be desirable.

The expert will undertake the following tasks:

- (i) Review and make suggestions on how to improve the present credit and portfolio risk management procedures being used by PBank.
- (ii) Prioritize the need to improve the credit and risk management system and develop an implementation plan.
- (iii) Prioritize and develop a plan for capacity building of employees, including the level of skills development needed at various levels and business areas.
- (iv) Implement the capacity building plan.
- (v) As requested, develop solutions to enhance the credit and portfolio risk management performance of PBank.
- (vi) Review and modify all aspects of credit management procedures based on international best practice including:
 - a. credit analysis, credit monitoring, and devising early warning signals for potential credit defaults;

- b. credit portfolio management including diversification of industries, credit limits and maximum exposure to borrowers;
 - c. financial risk portfolio management including matching maturities, interest rate risks, currency risks and financial products which could be used to minimize such risks; and
 - d. analysis of the data system to manage the credit and financial risks of the loan portfolio.
- (vii) Update and/or revise all credit manuals to meet international best practice standards.

A. SME Business Strategy Expert (1 international, 12 person-months)

10. The expert will have extensive international experience in marketing financial products and services to the SME market in emerging markets preferably in Sri Lanka and/or elsewhere in South Asia.

The expert will undertake the following tasks:

- (i) Conduct market research to understand how the SME customer segment could be better served by PBank's branch network. The market research would include the industries that should be supported and the financial products to be offered.
- (ii) In close coordination with the credit and financial risk management expert, review PBank's existing credit processing system to suggest changes to better service SME lending and reduce credit risk.
- (iii) Review the PBank's existing structure (e.g., branch network, technology, marketing network, etc.) to suggest changes to better service SME customers.
- (iv) Develop a marketing plan and sales unit within PBank to better service its present and potential SME customers.

B. Customer Service and Supervision Experts (2 domestic, total of 12 person-months)

11. The experts will have at least 10 years experience of training employees in marketing and sales. Experience in working with service organizations and retail customers will be essential, especially in rural areas. Experience in working with the sale of financial products and services will be helpful but not essential.

12. The experts will undertake the following tasks:

- (i) Review present marketing, customer service and customer service supervision used by PBank.
- (ii) Develop a time-bound plan for PBank to improve customer service. The plan should address: (a) market research; (b) marketing and sales programs; and (c) training and skills development. It should also include detailed costs for implementation.
- (iii) After approval of the plan in (ii) above is received, implement the plan to improve customer service.
- (iv) Develop a system for measuring customer satisfaction.
- (v) Develop a program to implement the customer satisfaction system.

C. Management Training Experts (2 domestic, total of 12 person-months)

13. The experts will have at least 10 years experience in training middle and upper management in large state-owned enterprises and/or publicly-traded companies in Sri Lanka. They should have experience in the areas of administration, finance, leadership, organizational behavior, sales and marketing.

The experts will undertake the following tasks:

- (i) Submit time-bound management training programs including subjects to be covered, number of employees to be trained and schedule of training cost estimates for (a) senior management and (b) middle management.
- (ii) Upon acceptance of the management training plan by PBank, implement the management training programs.
- (iii) Evaluate the results of the programs and make suggestions for further improvements.

D. Human Relations Management Expert (1 international, 24 person-months)

14. The expert will have at least 10 years experience in working with human relations questions, including motivation, personal skills development and incentivizing employees. He or she will have experience in working with labor unions and restructuring private sector corporations and state-owned enterprises and will have a good understanding of and relevant exposure to emerging markets, preferably in Sri Lanka and/or elsewhere in South Asia. The consultant will:

- (i) Review PBank's human relations policy, including incentive plans.
- (ii) Design a performance measurement model.
- (iii) Conduct a skills analysis of all employees and isolate gaps in essential skills needed for PBank operations.
- (iv) Implement the performance measurement model.
- (v) Make recommendations on improvements to human relations policy and recommend how to implement changes in policy.

E. Legal and Governance Experts (1 international, 2 person-months; 1 domestic, 6 person-months)

15. The experts will have at least 10 years legal experience in corporate securities, financial markets, and commercial and banking law and policy reform. The international expert should also have experience working in emerging markets, preferably Sri Lanka and/or elsewhere in South Asia. On an as needed basis, the MOFP may request legal advice on laws and/or regulations to be introduced as policy reforms under the Program.

F. Movable Property Registry Experts (1 international, 2 person-months; 1 domestic, 2 person-months)

16. The experts will have at least 10 years experience in telecommunications, information technology and developing electronic registries. The international expert will also have experience in electronic movable property registries. The international expert will have

experience in working in emerging markets, especially, in Sri Lanka and/or elsewhere in South Asia.

17. The experts will be responsible for:

- (i) Evaluating the software needs for Sri Lanka to have an operational movable property registry.
- (ii) Analyzing and making recommendations, from a cost and timing standpoint, on whether the software should be licensed from a third party or whether the software should be designed to meet the specific needs for Sri Lanka.
- (iii) Analyzing and recommending the hardware that should be acquired in order to operate the system.
- (iv) Coordinating with all parties to make the movable property register system operational.
- (v) Providing proper capacity building to the users of the system.
- (vi) Installing the system.

G. Banking Expert (1 international, 24 person-months)

18. The expert should have at least 15 years experience as an operational executive in a commercial bank with extensive retail banking experience. A proven track record on restructuring and turning around the financial performance of banks is essential. Experience in working with state-owned banks and in emerging markets preferably Sri Lanka is a requirement. The consultant will work for SEMA and will:

- (i) Review all the approved restructuring plans of the four banks managed by SEMA.
- (ii) Work closely with SEMA and the portfolio banks to ensure that the restructuring plans are being properly implemented.
- (iii) Recommend changes to the restructuring plans, if required, to improve the objectives and strategies established in the business plans.
- (iv) Upon approval by SEMA's Board of any changes to the strategy plans, work closely with the banks to ensure changes are implemented.
- (v) Interact with Government officials, Ministries and Authorities, as required, to coordinate activities in the banking industry.
- (vi) Provide technical guidance to SEMA on how the banks can improve profitability, increase their long-term financial value and improve their efficiency.
- (vii) Introduce international best practice banking standards into the operations of the SEMA-managed banks.
- (viii) Coordinate the independent review of PBank on a semi-annual basis.

H. Life Insurance Actuary Expert (1 international, 12 person-months)

19. The expert will be a licensed actuary and will have at least 10 years' (post qualification) work experience and will report to the General Director of the Insurance Board of Sri Lanka (IBSL), the Sri Lankan regulator of the insurance industry. The expert shall be a fellow of an actuarial professional body such as FIA, FFA, FSA, FCIA, FASI, etc. The expert will have extensive knowledge of the life insurance sector, including the supervision, monitoring and regulation, international best practice policies, regulatory procedures, and reporting requirements. The expert will also have a good understanding of, and relevant exposure to the

life insurance market in emerging markets, preferably Sri Lanka and/or elsewhere in South Asia. The expert will:

- (i) Review products of life insurance companies including use of the products and procedures for filing. Make suggestions to change the use of the products and/or procedures for filing to strengthen the life insurance industry and implement the proposed changes.
- (ii) Review present reinsurance arrangements for life insurance companies in Sri Lanka and in particular, the strength of the reinsurers, types of reinsurance arrangements entered into, reinsurance premium rates, retention limits, etc., and examine the respective reinsurance treaties. Make suggestions to change the procedures for strengthening the life insurance industry and implement the proposed changes.
- (iii) Review rules and regulations of investment procedures for life insurance companies. Assess their compliance to rules and regulations, measurement of investment performance, investments which are in default, etc. Make suggestions to change the procedures to strengthen the life insurance industry and implement the proposed changes.
- (iv) Review and examine the valuation returns of life insurance companies. The review shall consist of, among other things, solvency ratios, assumptions, comparative analysis of valuation results of insurers, distribution of surplus, etc. Make suggestions to financially strengthen the life insurance industry and implement the proposed changes.
- (v) Establish and implement a system to analyze the accounts statements for life insurance companies, and in particular, check compliance with regard to transfer of funds (from assets of the insurance company to shareholders), related-party transactions, reserves, etc. Make suggestions to change the procedures to strengthen the life insurance industry and implement the proposed changes.
- (vi) Develop a data base to be used for statistical analysis by the life insurance industry and the IBSL. In the process, define terms and devise procedures for compilation of statistics for the life insurance industry. Additional information should be collected and be available for the life insurance industry and the IBSL such as mortality, morbidity, lapses, agency turnover, expenses, etc.
- (vii) Review and examine the performance of brokers/agents. Make recommendations, if any, to change the operations, reporting and/or procedures of the brokers/agents to strengthen the life insurance industry and implement the proposed changes.
- (viii) Monitor and supervise the statistics of claims and investigations of the life insurance industry. Make recommendations to change the operations and/or reporting to strengthen the life insurance industry and implement the proposed changes.
- (ix) Establish guidelines for advertisements of insurers/brokers in the life insurance industry. Review advertisements of insurers/brokers and study whether they are misleading to the public/insuring public and recommend corrective action to violators.

- (x) Meet with the appointed actuaries of life insurance companies and develop and implement their responsibilities and activities.
- (xi) Liaise with the Director of Monitoring and Supervision at IBSL.
- (xii) Train staff of IBSL.
- (xiii) Work with other matters decided by the Director General of IBSL.

I. Property and Casualty Insurance Actuary Expert (1 international, 12 person-months)

20. The expert will be a licensed actuary and will have at least 10 years' (post qualification) work experience and will report to the General Director of the IBSL, the Sri Lankan regulator of the insurance industry. The expert shall be a fellow of an actuarial professional body such as FIA, FFA, FSA, FCIA, FASI, etc. The expert will have extensive knowledge of the property and casualty insurance sector, including the supervision, monitoring and regulation, international best practice policies, regulatory procedures, and reporting requirements. The expert will also have a good understanding of, and relevant exposure to the property and casualty insurance market in emerging markets, preferably Sri Lanka and/or elsewhere in South Asia. The expert will:

- (i) Review products of property and casualty insurance companies including use of the products and procedures for filing. Make suggestions to change the use of the products and/or procedures for filing to strengthen the property and casualty insurance industry and implement the proposed changes.
- (ii) Review present reinsurance arrangements for property and casualty insurance companies in Sri Lanka and in particular, the strength of the reinsurers, types of reinsurance arrangements entered into, reinsurance premium rates, retention limits, etc., and examine the respective reinsurance treaties. Make suggestions to change the procedures to strengthen the property and casualty insurance industry and implement the proposed changes.
- (iii) Review rules and regulations of investment procedures for property and casualty insurance companies. Assess their compliance to rules and regulations, measurement of investment performance, investments which are in default, etc. Make suggestions to change the procedures to financially strengthen the property and casualty insurance industry and implement the proposed changes.
- (iv) Review and examine the valuation returns of property and casualty insurance companies. The review shall consist of, among other things, solvency ratios, assumptions, comparative analysis of valuation results of insurers, distribution of surplus, etc. Make suggestions to strengthen the property and casualty insurance industry and implement the proposed changes.
- (v) Establish and implement a system to analyze the accounts statements for property and casualty insurance companies, and in particular, check compliance with regard to transfer of funds (from assets of the insurance company to shareholders), related-party transactions, reserves, etc. Make suggestions to change the procedures to strengthen the property and casualty insurance industry and implement the proposed changes.
- (vi) Develop a data base to be used for statistical analysis by the property and casualty insurance industry and the IBSL. In the process, define terms and

devise procedures for compilation of statistics for the property and casualty insurance industry. Additional information should be collected and be available for the property and casualty insurance industry and the IBSL such as mortality, morbidity, lapses, agency turnover, expenses, etc.

- (vii) Review and examine the performance of brokers/agents. Make recommendations, if any, to change the operations, reporting and/or procedures of the brokers/agents to strengthen the property and casualty insurance industry and implement the proposed changes.
- (viii) Monitor and supervise the statistics of claims and investigations of the property and casualty insurance industry. Make recommendations to change the operations and/or reporting to strengthen the property and casualty insurance industry and implement the proposed changes.
- (ix) Establish guidelines for advertisements of insurers/brokers in the property and casualty insurance industry. Review advertisements of insurers/brokers and study whether they are misleading to the public/insuring public and recommend corrective actions to violators.
- (x) Meet with the appointed actuaries of property and casualty insurance companies and develop and implement their responsibilities and activities.
- (xi) Liaise with the Director of Monitoring and Supervision.
- (xii) Train staff of IBSL.
- (xiii) Work with other matters decided by the Director General of IBSL.

V. PROCUREMENT

21. **IT Hardware and Software.** Computer hardware and software to support the development and maintenance of the database for the national electronic movable property registry will be procured for approximately \$130,000, in accordance with ADB's *Guidelines for Procurement*. If any packages above \$500,000 equivalent arise, international competitive bidding must be followed. For packages between \$100,000 and \$500,000 equivalent international shopping procedures may be followed, and for packages below \$100,000 equivalent, direct purchase procedures may be used (Appendix 3).

VI. DISBURSEMENT PROCEDURES

22. Under the TA Loan, procurement will be undertaken by the five implementing agencies: IBSL, Department of Census and Statistics, MOFP, PBank, and SEMA. Each implementing agency may commission studies and procure equipment as programmed under the loan in accordance with ADB's *Guidelines for Procurement*. Since disbursements under the TA will be mainly for international consulting services and equipment supply, ADB's commitment letter and direct payment procedures will be used in accordance with ADB's *Handbook for Loan Disbursement*. The disbursement letter is attached as Appendix 4.

23. The two normal disbursement procedures are as follows:

- (i) Imprest Fund Procedure: ADB is advancing periodically sums for smaller and out-of-pocket expenses against liquidation receipts; and

- (ii) Direct Payment Procedure: ADB directly transfers the money to the supplier of equipment;

24. **Imprest Fund Account.** MOFP shall establish immediately after the Effective Date an Imprest Fund Account denominated in US dollars for disbursement of loan proceeds at CBSL. The imprest account will be operated and maintained in accordance with ADB's *Handbook on Loan Disbursements* dated January 2001 and ADB's *Interim Guidelines for Disbursement Operations—LIBOR Based Loan Products* dated July 2002. The initial amount to be deposited into the imprest account shall not exceed the equivalent of 10 percent of the Loan or six months' Project expenditure, whichever is less.

25. The following procedure should be followed:

- (i) MOFP to provide list of authorized signatories for the withdrawal applications; ADB requires the Borrower's representative designated in the Loan Agreement to furnish sufficient evidence of the authority of the person(s) designated to sign the W/As together with their authenticated signatures.
- (ii) Evidence of authority of the person(s) designated to sign W/As must reach ADB before MOFP submits the W/As from Implementing Agencies. MOFP to coordinate submission of all W/As from Implementing Agencies to ADB in duplicate.

26. For imprest account funds, MOFP has to submit to ADB all W/As in duplicate. The following procedures should be observed:

- (i) For initial advance, provide all details as required in form ADB-IFP-EES.
- (ii) Estimated expenditures should normally be based on the amount of contracts awarded and to be awarded in the next six months. For expenditures related to operational costs, the amount should be linked to the project's budget provisions. No supporting documents are required.
- (iii) For replenishment of advances, the Implementing Agencies will consolidate claims until the amount being withdrawn is at least \$100,000 equivalent, or an amount advised by ADB.
- (iv) To liquidate advances provided into the imprest account, reimbursement procedure may be used.
- (v) MOFP will submit all evidence of payment, invoices, bill of lading, or work certificates.
- (vi) In all the above cases, MOFP is to attach a bank statement from CBSL maintaining the Imprest Fund and the bank reconciliation of the Imprest Fund Account.

27. A W/A will have to be filled out for each different currency in which withdrawal is requested. Summary Sheets should be signed by authorized representative(s) of the Borrower and should be presented in two copies.

28. The MOFP will be responsible for the preparation of W/A and the collection of all supporting documentation. The Loan Disbursement Handbook provides additional information on the procedures.

Table 2

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Technical Assistance for Financial Markets Program for Private Sector Development)				
CATEGORY			PERCENTAGE OF ADB FINANCING	
Number	Item	Amount Allocated (SDR) Category	Percentage	Basis for Withdrawal from the Loan Account
1	Equipment	87,000	100	percent of foreign expenditure
			100	percent of local expenditure*
2	Training	242,000	100	percent of foreign expenditure
			100	percent of local expenditure*
3	Consulting Services	2,393,000	100	percent of foreign expenditure
			100	percent of local expenditure*
4	Communication / Documentation	47,000	100	percent of foreign expenditure
			100	percent of local expenditure*
5	Interest Charge plus Commitment Charge	205,000	100	total amount due
6	Unallocated	344,000		
	Total	3,318,000		

29. If the sum of the W/As for a specific category is greater than the amount indicated in Table 2, a request for reallocate funds must be sent to ADB for approval.

30. Direct Payment. The Implementing Agencies (IBSL, the Department of Census and Statistics, MOFP, PBank, and SEMA) have to prepare W/A for each currency of payment and for each payee. Payment for consulting services and computer equipment will follow ADB's direct payment procedure.

VII. PROGRAM MONITORING AND EVALUATION

31. During the inception phases, the Implementing Agencies will revalidate the policy objectives, and assess key issues and priorities, capacity-building, and operational development needs. At the end of this phase, resource inputs may be adjusted as appropriate within the overall budgetary framework and the TA scope, to better align the terms of reference, activities, and time-bound outputs with the needs of the Program.

32. In addition to regular interaction between the MOFP and ADB, annual reviews will be undertaken by ADB that will include an evaluation of the scope of the TA, implementation arrangements, and progress to date. A comprehensive midterm review will also be undertaken approximately 18 months after commencement of the TA, and based on this review, modifications will be considered as needed.

VIII. REPORTING REQUIREMENTS AND PROGRAM REVIEW

33. Project reports will be provided semiannually by the co-ordination committee. The reports will contain narrative descriptions of progress made during the period, changes to the implementation schedule, if any, problems or difficulties encountered and the remedial actions taken, the performance of the TA consultants where applicable, and the work to be carried out

in the next period. The reports will also include a summary financial account for the TA, consisting of expenditures to date. The final report will be prepared following ADB's format for project completion reports. A sample progress report is included in Appendix 5.

IX. AUDITING REQUIREMENTS

34. Separate accounts need to be maintained by each Implementing Agency for the project, and these must be audited on an annual basis. The audit report will be due within 6 months of close of the fiscal year to which the accounts refer. A copy of a sample audit letter is included in Appendix 6.

X. MAJOR LOAN COVENANTS

35. The following major covenants are included in the Loan Agreement. These covenants are directly related to the TA Loan and are considered essential to ensure its successful implementation.

Specific Covenants	Agencies Responsible	Deadline for compliance	Reference	Remarks
Counterpart Funds – The Borrower shall allocate and make available sufficient funds from its budget for each fiscal year for the implementation of the TA Project.	MOFP	1 Apr 05	LA, Sched. 6, para 4.	Complied
Audit – The Borrower shall maintain, or cause to be maintained, separate accounts for the TA Project; have such accounts audited annually, in accordance with appropriate auditing standards, by independent auditors acceptable to ADB; furnish to ADB, not later than 6 months after the end of each fiscal year certified audited accounts.	MOFP	Jun 2006	LA, Section 4.02 (a)	Not yet due
Reporting (semi-annual/annual/completion) – To submit reports (semiannual and annual reports, midterm review report and project completion report) to ADB concerning the use of loan proceeds, project administration, and financial management .	Coordiination Committee	Continuing	LA, Schedule 6	Not yet due
Contract Variation – If any substantial amendment of the consultant's contract is proposed after its execution, the proposed changes shall be submitted to ADB for prior approval.	MOFP	As encountered	LA, Sched. 5, para 4(c)	None yet

XI. PARTICULAR TA LOAN COVENANTS

36. In addition to the major loan covenants, the following particular covenants under Project Agreement, Article II, are as follows:

Section 2.01.

(a) Each Implementing Agency shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, environmental, banking, commercial, corporate governance, human resources, management, and insurance practices as appropriate.

(b) In the carrying out of the Project and operation of the Project facilities, each Implementing Agency shall perform all obligations set forth in the TA Loan Agreement to the extent that they are applicable to such Implementing Agency.

Section 2.02.

Each Implementing Agency shall make available, promptly as needed, facilities, services, equipment, and other resources that are required, in addition to the proceeds of the TA Loan, for the carrying out of their respective part of the TA Project.

Section 2.03.

(a) In the carrying out of the Project, each Implementing Agency shall employ competent and qualified consultants and contractors, acceptable to ADB, to an extent and upon terms and conditions satisfactory to ADB.

(b) Except as ADB may otherwise agree, all goods and services to be financed out of the proceeds of the TA Loan shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to the TA Loan Agreement, a copy of which is attached in Appendixes 5 and 6, respectively. ADB may refuse to finance a contract where goods or services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04.

Each Implementing Agency shall carry out the Project in accordance with plans, specifications, and work schedules acceptable to ADB. Each Implementing Agency shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans, specifications and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05.

Each Implementing Agency shall maintain, or cause to be maintained, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the TA Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.06.

(a) Each Implementing Agency shall cooperate fully with ADB, and as necessary with the Borrower, its agencies and authorities, and each other Implementing Agency to ensure that the purposes of the TA Loan will be accomplished.

(b) Each Implementing Agency shall promptly inform ADB of any condition that interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement, or the accomplishment of the purposes of the TA Loan.

(c) ADB and each Implementing Agency shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, each Implementing Agency and the TA Loan.

Section 2.07.

(a) Each Implementing Agency shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the TA Loan and the expenditure of the proceeds thereof; (ii) the goods and services and other items of expenditure financed out of such proceeds; (iii) the TA Project; (iv) the administration, operations and financial condition of such Implementing Agency; and (v) any other matters relating to the purposes of the TA Loan.

(b) Without limiting the generality of the foregoing, each Implementing Agency shall furnish to ADB quarterly reports on the execution of the TA Project and on the operation and management of the TA Project facilities. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the quarter under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following quarter.

(c) Promptly after physical completion of the Project, but in any event not later than three (3) months thereafter or such later date as ADB may agree for this purpose, each Implementing Agency shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by each Implementing Agency of its obligations under this Project Agreement and the accomplishment of the purposes of the TA Loan.

Section 2.08.

(a) Each Implementing Agency shall (i) maintain separate accounts for the TA Project and for its overall operations; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related 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; and (iii) furnish to ADB, promptly after their preparation but in any event not later than 6 months after the close of the fiscal year to which they relate, 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 TA Loan proceeds and compliance with the financial covenants of the TA Loan Agreement as well as on the use of the procedures for the imprest account all in the English language. Each Implementing Agency shall furnish to ADB such further information concerning such accounts and financial statements and the audit thereof as ADB shall from time to time reasonably request.

(b) Each Implementing Agency shall enable ADB, upon ADB's request, to discuss such Implementing Agency's financial statements and its financial affairs from time to time with such Implementing Agency's auditors, 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 such Implementing Agency unless such Implementing Agency shall otherwise agree.

Section 2.09.

Each Implementing Agency shall enable ADB's representatives to inspect the premises whereby the TA Project is conducted, the goods financed out of the proceeds of the TA Loan, all other branches, sites, works, properties and equipment of each Implementing Agency, and any relevant records and documents.

Section 2.10.

(a) Each Implementing Agency shall, promptly as required, take all action within its powers to maintain its corporate existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the TA Project or in the conduct of its business.

(b) Each Implementing Agency shall at all times conduct its business in accordance with (a) sound administrative, financial, environmental, banking, financial, human resources, management, commercial, labor and insurance practices, and under the supervision of competent and experienced management and personnel; (b) all applicable laws, including in the case of People's Bank all applicable labor and worker laws; and (c) in the case of People's Bank internal procedures that shall be established to ensure compliance with such laws.

(c) Each Implementing Agency shall at all times operate and maintain its plants, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, engineering, environmental, banking, financial, human resources, management, commercial and insurance practices, and sound maintenance and operational practices.

Section 2.11.

Except as ADB may otherwise agree, each Implementing Agency shall not sell, lease or otherwise dispose of any of its assets which shall be required for the efficient carrying on of its operations or the disposal of which may prejudice its ability to perform satisfactorily any of its obligations under this Project Agreement.

Section 2.12.

Except as ADB may otherwise agree, each Implementing Agency shall apply its proceeds of the TA Loan to the financing of expenditures on the TA Project in accordance with the provisions of the TA Loan Agreement and this Project Agreement, and shall ensure that all goods and services financed out of such proceeds are used exclusively in the carrying out of the TA Project.

Section 2.13.

People's Bank and IBSL, respectively, shall promptly notify ADB of any proposal to amend, suspend or repeal any provision of People's Bank Act, or the Insurance Act, as relevant and shall afford ADB an adequate opportunity to comment on such proposal prior to taking any action thereon.

XII. KEY PERSONS INVOLVED IN THE PROGRAM

37. All official communication related to the Program should be addressed to the following key personnel:

Names	Company	Position	Address	Telephone / Fax No./ Email address
To be named	ADB	Director	6 ADB Avenue, Mandaluyong, Philippines	T-632-6324444 F-632-6362337
Barbara Ericsson	ADB	Principal Financial Sector Specialist	6 ADB Avenue, Mandaluyong, Philippines	T-632-6325708 F-632-6362337 Email: berricson@adb.org
Sujatha Cooray	ERD	Director General	Ministry of Finance & Planning, 3 rd Flr, Galle Face Secretariat,	T-94-11-2541279 F-94-11-2447633 Email:

			Colombo 1, Sri Lanka	sujatha@erd.gov.lk
Chandra Ekanayake	ERD	Additional Director General	Ministry of Finance & Planning, 3 rd Flr, Galle Face Secretariat, Colombo 1, Sri Lanka	T-94-11-2484653 F-94-11-2449823 Email: chandrae@erd.gov.lk
Mano Titawella	SEMA	Chairman/CEO	2 nd Floor 21 Janadhipathi Mawatha, Colombo 01 Sri Lanka	T-94-11-2392967 F-94-11-2392968 Email: ceo@sema.gov.lk
Lalith Pieris	SEMA	Manager	2 nd Floor 21 Janadhipathi Mawatha, Colombo 01 Sri Lanka	T-94-11-2426100 F-94-11-2392968 Email: lalith@sema.gov.lk
Asoka de Silva	People's Bank	General Manager	14 th Floor Head Office Colombo 02, Sri Lanka	T-94-11-2334041 F-94-11-2446411 Mobile: 94 777309191 Email: adgm@peoplesbank.lk
Dr. Dayanath C. Jayasuriya	Insurance Board of Sri Lanka	Chairman	East Tower World Trade Centre Echelon Square Colombo 01, Sri Lanka	T-94-11-2437086 F-94-11-2439149 Email: ibsl@srilanka.net
Ms. Lasinee Serasinhe	Insurance Board of Sri Lanka	Director General	East Tower World Trade Centre Echelon Square Colombo 01, Sri Lanka	T-94-11-2345326 F-94-11-2439149 Email: lasine@eureka.lk
Mrs. S. Vidyaratne	Department of Census and Statistics	Additional Director General		
Mr. B. Vijayaratne	Department of Motor Traffic	Commissioner		

XIII. ANTICORRUPTION

38. The TA Project is subject to ADB's Anticorruption Policy. Anyone coming across evidence of corruption associated with the program is required to contact ADB's Office of the General Auditor, which will investigate allegations. Further information on ADB's anticorruption policy is available through ADB's website: <http://www.adb.org> (and selecting 'anticorruption' as topic), or directly through: <http://www.adb.org/Documents/Policies/Anticorruption/default.asp>.