

## **SUMMARY OF FINANCIAL MANAGEMENT ASSESSMENT**

### **A. Financial Management Assessment**

1. A financial management assessment was carried out for the executing agency and project implementing entities (PIEs) in accordance with Asian Development Bank (ADB) guidelines. The executing agency is currently implementing two ADB-financed projects and therefore has sufficient knowledge and experience in ADB policies and procedures, which would be shared with the implementing agencies and PIEs. The executing and implementing agencies, and one of the PIEs are government entities and the other two PIEs are state-owned enterprises (SOE). The government has a controlling interest in the financial intermediary Guangxi Branch of the Bank of Communications (BOCOM). The SOE's follow more commercially oriented financial reporting with profit and loss, balance sheet and cashflow statements. The other entities follow government accounting procedures on budget preparation, publishing and implementation. All institutions have produced financial statements on time, i.e., financial statements for the year ended 31 December 2015 have been prepared and audited. The auditor has issued unqualified opinions for all entities concerned. Internal controls such as segregation of duties, verification of fixed assets, preparation of bank reconciliations and other reconciliations, and monitoring of budget are in place. Authority levels are functional to authorize transactions based on the value of their respective amounts. No major country-level financial management issues are apparent as the country has a well-established public sector. Overall Inherent Risk and Control Risk have been assessed as low.

### **B. Disbursement Arrangements for ADB Funds**

2. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2015, as amended from time to time), and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available.<sup>1</sup> Project staff is encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

3. The first tranche of the multitranche financing facility will comprise two loans for a total of \$130.0 million: (i) a loan (loan 1) amounting to \$66.42 million with a 25-year term including a grace period of 5 years, interest and other charges during construction to be capitalized; and (ii) a second loan (loan 2) using the FIL modality amounting to \$63.58 million with a 15-year term including a grace period of 12 years, interest and other charges during construction capitalized for the first 5 years. Both loans will have (i) a straight-line repayment method, (ii) an annual interest rate determined in accordance with ADB's London interbank offered rate (LIBOR)-based lending facility, (iii) a commitment charge of 0.15% per year; and (iv) such other terms and conditions set forth in the draft loan and project agreements. Ordinary capital resources from both the PRC country allocation and regional set-aside will be tapped into for the investment program.

4. The loan agreements will be signed between the ADB and the Ministry of Finance of the People's Republic of China. The Ministry of Finance will re-lend the proceeds to Guangxi Department of Finance (GDOF) of the Guangxi Provincial Government on the same terms and conditions. For the investment component loan, the GDOF will on-lend to the prefecture/municipal finance bureaus concerned on a back-to-back basis. The prefecture/municipal level finance bureaus will then lend to the project implementing entities.

---

<sup>1</sup> Disbursement eLearning. [http://wpqr4.adb.org/disbursement\\_elearning](http://wpqr4.adb.org/disbursement_elearning)

5. For the ADB loan proceeds that will be on-lent via financial intermediary (BOCOM) to SMEs, a separate USD imprest account will be established at the provincial level and managed by the GDOF (Figure 2). The loan proceeds will be transferred from the imprest account to the revolving escrow account (REA) established at BOCOM after the receipt of funds by GDOF from ADB, following the necessary domestic procedures. GDOF will make available the loan proceeds to BOCOM, under the terms and conditions of the revolving escrow account (REA) management agreement, for further onlending to selected subborrowers through subloan agreements among BOCOM, the subborrower and GDOF.<sup>2</sup> The REA will be managed by BOCOM. Considering the executing agency's and GDOF's burden of attaching voluminous documentation for numerous and small amounts of subloans to withdrawal applications (WAs), the statement of expenditure (SOE) for FIL loans procedure will be used. The SOE ceiling under the financial intermediary loan is set at the free limit of the SME loans, CNY 30 million. If an individual loan size exceeds the SOE ceiling, a subloan agreement and a summary sheet will need to be submitted for liquidation.

6. **Imprest fund procedure.** A separate imprest account will be established and maintained by the executing agency, through Guangxi Department of Finance (GDOF), for each ADB loan. The currency of the imprest accounts is the US dollar. The imprest accounts are to be used exclusively for ADB's share of eligible expenditures. GDOF is accountable and responsible for proper use of advances to the two imprest accounts, one for the investment loan (Loan 1) and the other for the FIL (Loan 2).

7. For each loan, the total outstanding advance to the imprest account should not exceed the estimate of ADB's share of expenditures to be paid through the imprest account for the forthcoming 6 months. The executing agency, through GDOF, may request initial and additional advances to the imprest accounts based on an Estimate of Expenditure Sheet setting out the estimated expenditures to be financed through the account for the forthcoming 6 months.<sup>3</sup> Supporting documents should be submitted to ADB or retained by the borrower, the Guangxi Foreign Loans Project Management office in accordance with ADB's Loan Disbursement Handbook (2015, as amended from time to time) when liquidating or replenishing the imprest account.

8. **Statement of expenditure procedure.**<sup>4</sup> The statement of expenditure (SOE) procedure may be used for reimbursement of eligible expenditures or liquidation of advances to the imprest account. Supporting documents and records for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

9. Before the submission of the first withdrawal application, the borrower should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal

---

<sup>2</sup> To ensure that ADB loan proceeds, as well as interest payments and principal repayments from the subborrowers are not co-mingled with the other funds being administered by BOCOM, a separate REA will be established at and maintained by BOCOM for all transactions related to the project and administration of the FIL. This will ensure that the account is kept distinct from BOCOM's own assets, and provides protection against adverse results from other BOCOM financial operations. The principal repaid will reflow back to REA for recycling of the FIL for sub-loans. The interest payment will be separately kept in interest rate differential account (IDA).

<sup>3</sup> ADB. 2015. *Loan Disbursement Handbook*. Appendix 10B.

<sup>4</sup> SOE forms are available in Appendix 9B and 9C of ADB's *Loan Disbursement Handbook* (2015, as amended from time to time).

applications on behalf of the Government of the PRC, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is in accordance with the Loan Disbursement Handbook. Individual payments below this amount should be paid (i) by the executing agency and subsequently claimed to ADB through reimbursement, or (ii) through the imprest fund procedure, unless otherwise accepted by ADB.

### **C. Accounting**

10. The GPMO, implementing agencies (IAs) and project implementing entities (PIEs) will maintain, or cause to be maintained, separate books and records by funding source for all expenditures incurred on the project in accordance with their respective financial reporting frameworks. This is to be ensured by (i) support to the GPMO under the ADB loan by provision of a financial management consultant who will assist in developing project accounting and reporting systems; (ii) engagement of a specific accounting staff by GPMO, IAs and PIEs—covered by an assurance—to prepare project financial statements in accordance with their respective financial reporting standards; and (iii) strengthening of project accounting systems through engagement of a professional accounting firm by the GPMO—covered by an assurance—to assess internal controls of the IAs and PIEs and recommend measures for strengthening and improvement. For the FIL loan, each subborrower of the SME financing component under BOCOM will also maintain separate accounts and records by funding source for all expenditures incurred on the project. BOCOM will prepare a Statement of Utilization of Funds for the FIL in accordance with the International Financial Reporting Standards.

### **D. Auditing and Public Disclosure**

11. The GPMO will cause the detailed project financial statements to be audited in accordance with International Standards on Auditing, by an independent auditor acceptable to ADB. The audited project financial statements together with the auditor's opinion will be presented in the English language to ADB within 6 months from the end of the fiscal year by the GPMO.

12. For entities preparing independent entity financial statements, the audited entity financial statements, together with the auditor's report and management letter, will be submitted in the English language to ADB within 1 month after their approval by the relevant authority.

13. The audit report for the project financial statements will include a management letter and auditor's opinions, which cover (i) whether the project financial statements present an accurate and fair view or are presented fairly, in all material respects, in accordance with the applicable financial reporting standards; (ii) whether the proceeds of the loan were used only for the purpose(s) of the project; and (iii) whether the borrower or executing agency was in compliance with the financial covenants contained in the legal agreements (where applicable).

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

15. The Government, GPMO and the PIEs have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the audited project financial statements.<sup>5</sup> ADB reserves the right to require a change in the auditor (in a

---

<sup>5</sup> ADB's approach and procedures regarding delayed submission of audited project financial statements:

manner consistent with the constitution of the borrower), or for additional support to be provided to the auditor, if the audits required are not conducted in a manner satisfactory to ADB, or if the audits are substantially delayed. ADB reserves the right to verify the project's financial accounts to confirm that the share of ADB's financing is used in accordance with ADB's policies and procedures.

16. Public disclosure of the audited project financial statements, including the auditor's opinion on the project financial statements, will be guided by ADB's Public Communications Policy 2011.<sup>6</sup> After the review, ADB will disclose the audited project financial statements and the opinion of the auditors on the project financial statements no later than 14 days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter, additional auditor's opinions, and audited entity financial statements will not be disclosed.<sup>7</sup>

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

<sup>6</sup> Public Communications Policy: <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>

<sup>7</sup> This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2011. *Public Communications Policy*. Paragraph 97(iv) and/or 97(v).