

Project Administration Manual

Project Number: 47083-004
MFF Number: 0077
October 2018

India: Accelerating Infrastructure Investment Facility
in India (Tranche 3)

Abbreviations

ADB	=	Asian Development Bank
AIIFI	=	Accelerating Infrastructure Investment Facility in India
ESSF	=	environmental and social safeguards framework
IIFCL	=	India Infrastructure Finance Company Limited
MFF	=	multitranche financing facility
PAM	=	project administration manual
PPP	=	public-private partnership
PMU	=	project management unit
SOE	=	statement of expenditures
TA	=	technical assistance
USD	=	United States dollars

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Project Administration Manual Purpose and Process

The project administration manual (PAM) describes the essential administrative and management requirements to implement the project on time, within budget, and in accordance with the policies and procedures of the Government of India (government) and Asian Development Bank (ADB). The PAM should include references to all available templates and instructions either through linkages to relevant URLs or directly incorporated in the PAM.

The India Infrastructure Finance Corporation Limited (IIFCL) is wholly responsible for the implementation of ADB-financed project, as agreed jointly between IIFCL and ADB, and in accordance with the policies and procedures of the government and ADB. ADB staff is responsible for supporting implementation including compliance by IIFCL of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At loan negotiations IIFCL and ADB shall agree to the PAM and ensure consistency with the Framework Financing Agreement. Such agreement shall be reflected in the minutes of the loan negotiations. In the event of any discrepancy or contradiction between the PAM and the loan agreement, the provisions of the loan agreement shall prevail.

After ADB approval of the tranche's periodic financing request, changes in implementation arrangements are subject to agreement and approval pursuant to relevant government and ADB administrative procedures (including the Project Administration Instructions) and upon such approval they will be subsequently incorporated in the facility's facility administration manual and/or Tranche 3's PAM.

I. PROJECT DESCRIPTION

1. The facility and attached technical assistance (TA), with the technical assistance being subject to government approval, financed on a grant basis by ADB's Technical Assistance Special Fund (TASF-6) supports the Government of India in promoting infrastructure growth through increased private sector investment in public–private partnerships (PPPs). At the time of the facility's approval, India aimed to mobilize about \$500 billion in private funding to meet its \$1 trillion infrastructure financing requirements under the Twelfth Five Year Plan, 2012–2017.¹ The facility is an integral part of the Asian Development Bank's (ADB) strategy for infrastructure finance in India and complements parallel initiatives in PPPs and capital markets—all of which contribute to creating an enabling environment for long-term financing for infrastructure development.²
2. The impact of tranche 3 is investments in infrastructure increased under the India Three Year Action Agenda 2017–2018 to 2019–2020.³ The outcome is private sector investment in infrastructure PPPs facilitated.
3. The outputs of tranche 3 are: (i) availability of long-term finance for PPP subprojects enhanced and (ii) operational capacity of India Infrastructure Finance Company Limited (IIFCL) improved.
4. The outputs of the attached TA are: (i) financial management improved and (ii) social and environmental safeguards strengthened.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities

Table 1: Project Readiness Activities

Indicative Activities	Nov 2018	Dec 2018	Jan 2019– Dec 2022	Responsible Unit
Tranche 3 management approval	X			ADB
Loan and guarantee signing		X		IIFCL, GOI
Loan effectiveness			X	DEA, IIFCL
Disbursement			X	ADB, IIFCL

ADB =Asian Development Bank, DEA = Department of Economic Affairs, GOI = Government of India, IIFCL = India Infrastructure Finance Corporation Limited.

Source: Asian Development Bank.

¹ Government of India, Planning Commission. 2013. *Twelfth Five Year Plan (2012–2017)*. New Delhi.

² Eligible subprojects under the facility are those meeting the requirements of the government's Scheme for Financing Viable Infrastructure Projects through a Special Purpose Vehicle called the India Infrastructure Finance Company Limited (SIFTI), issued on 4 January 2006 and amended as of 30 March 2015, and Take-out Finance Scheme for Financing Viable Infrastructure Projects (TFS), effective 16 April 2010 and amended as of 27 January 2015. Refer to <http://www.iifcl.org/Content/schemeproducts.aspx>.

³ Government of India, NITI Aayog. 2017. *India: Three Year Action Agenda, 2017-18 to 2019-20*. New Delhi.

B. Overall Facility Implementation Plan

Table 2: Implementation Plan

Activities	2019 (Quarter)				2020 (Quarter)				2021 (Quarter)				2022 (Quarter)				2023 (Quarter)				2024 (Quarter)			
Financing Availability	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4	1	2	3	4
Tranche 3																								
A. Design and Monitoring Framework																								
Output 1: Availability of long-term finance for PPP subproject enhanced																								
Activity 1.1: IIFCL disburses financing to 13 PPPs																								
Output 2: Operational capacity of IIFCL improved																								
Activity 2.1: An independent third party assesses the adequacy of IIFCL's management information systems																								
Activity 2.2: IIFCL performs a gap analysis of its credit risk management and submits recommendations to its board of directors																								
Activity 2.3: IIFCL completes in-house training, a study of international practices, and a facilitated review of a non-ADB funded project with significant safeguard impacts																								
B. Management Activities																								
Annual and/or midterm review																								
Project completion report																								

IIFCL = India Infrastructure Finance Company Limited, PPP = public-private partnership.

Source: Asian Development Bank.

III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations: Roles and Responsibilities

Table 3: Roles and Responsibilities

Project Implementation Organizations	Management Roles and Responsibilities
IIFCL as executing agency	<ul style="list-style-type: none"> ➤ act as executing agency for the loan and technical assistance (TA) ➤ organize audits of the statement of utilization of funds and entity-level financial statements by chartered accountants; ➤ adequately staff the PMU headed by a program director, who will be a senior staff of IIFCL for program administration, loan disbursement, accounts maintenance, and reporting to ADB; ➤ liaise with PMU and ADB to address any implementation issues; and ➤ prepare semiannual progress reports that provide updates on the design and monitoring framework.

Project Implementation Organizations	Management Roles and Responsibilities
IIFCL as implementing agency	<ul style="list-style-type: none"> ➤ act as implementing agency for the loan and TA ➤ ensure that the subborrower and subproject selection criteria is adopted in accordance with ADB procedures and IIFCL's Scheme; ➤ implement the approval procedures for proposed subprojects; ➤ assign adequate staff to the PMU cell to implement the environmental and social safeguards framework (ESSF) and approval procedure for the proposed subprojects; ➤ follow all due diligence, supervision, and monitoring procedures with respect to environmental and social safeguard requirements as set out in the ESSF and section VII of this PAM; ➤ monitor implementation of the project and of subprojects in line with subproject proposals and the agreed monitoring benchmarks with the lead bank; ➤ ensure implementation of funds flow and disbursement requirements to eligible subprojects; ➤ ensure maintaining a sub-ledger account for ADB funds, separate from other general funds, and closely monitoring usage of ADB funds for eligible subprojects; ➤ ensure auditing of loan proceeds and maintenance of accounts; and ➤ obtain and provide to ADB all disbursement-related documentation and fulfill certification requirements.
ADB	<ul style="list-style-type: none"> ➤ review implementation of the project; ➤ review progress of subprojects in line with subproject proposals and the agreed monitoring benchmarks with the lead bank; ➤ confirm funds flow and disbursement requirements to eligible subprojects; ➤ ensure that ADB funds be available for eligible subprojects; ➤ confirm auditing of loan proceeds and maintenance of accounts; ➤ obtain all disbursement-related documentation and fulfill certification requirements; and ➤ implement the attached TA.

ADB = Asian Development Bank, IIFCL = India Infrastructure Finance Company Limited, PAM = project administration manual, PMU = project management unit.

Source: Asian Development Bank.

B. Key Persons Involved in Implementation

Executing Agency

India Infrastructure Finance
Company Limited

Officer's Name: Anil Taneja
Position: Chief General Manager
Telephone: +91 11 23450222
Email address: aniltaneja@iffcl.org
Office Address: 8th Floor, Hindustan Times Building,
18 & 20, Kasturba Gandhi Marg New Delhi-110 001

ADB

Public Management, Financial
Sector and Trade Division

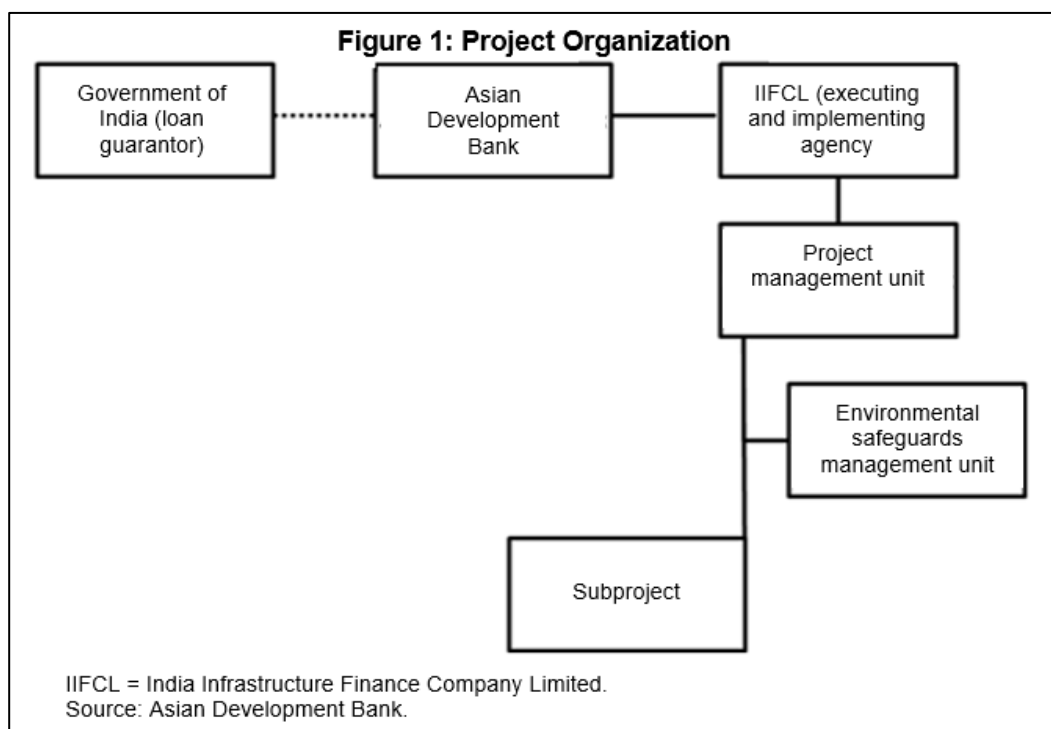
Staff Name: Bruno Carrasco
Position: Director
Telephone No. +63 2 632 5929
Email address: bcarrasco@adb.org

Mission Leader

Staff Name: Donald Lambert
Position: Principal Finance Specialist

Telephone No. +63 2 632 5921
Email address: dlambert@adb.org

C. Project Organization Structure



IV. COSTS AND FINANCING

5. To support its lending operations, IIFCL has estimated that it will need to raise \$9.4 billion through FY2019 to support its lending operations. Under the Accelerating Infrastructure Investment Facility for India (AIIFI), ADB indicated its agreement in principle to provide loans to IIFCL of \$700 million from ADB's ordinary capital resources, supported by sovereign guarantees by the government. ADB's loans would represent approximately 7.4% of IIFCL's anticipated borrowings for the period. On 22 January 2014, ADB and IIFCL signed a loan agreement for tranche 1 of \$400 million with a 19.5-year term. In October 2015, ADB approved tranche 2 of \$300 million. However, because of government's increase in guarantee fee allowing IIFCL to raise funds from the domestic bond market at a lower cost, the loan was not signed and ADB cancelled tranche 2 in 2016.

6. On 6 September 2018, IIFCL submitted a periodic financing request dated 14 March 2018 requesting a loan for tranche 3 in the amount of \$300 million. Withdrawals will be in United States dollars (USD). Withdrawals will be on the terms of ADB's London interbank offered rate (LIBOR) based loans with a 19.5-year term (including a grace period of 4 years) plus a margin and such other terms and conditions set forth in the tranche 3 loan agreement. A commitment charge of 0.15% per annum will be payable in USD on the undisbursed amount of the loan. The government will provide a sovereign guarantee in form and substance acceptable to ADB for the term of the loan as a condition precedent to its effectiveness.

7. IIFCL will use the borrowings to fund at least 13 qualified direct financing subprojects and, funds permitting, takeout financing subprojects. IIFCL will cover up to 20% of subproject costs for greenfield projects and up to 30% of subproject costs for takeout financing, which is the maximum amount that IIFCL is allowed to finance under its internal procedures (see Supplementary Appendix B of the PFR Report for a list of indicative subprojects).

A. Cost Estimates Preparation and Revisions

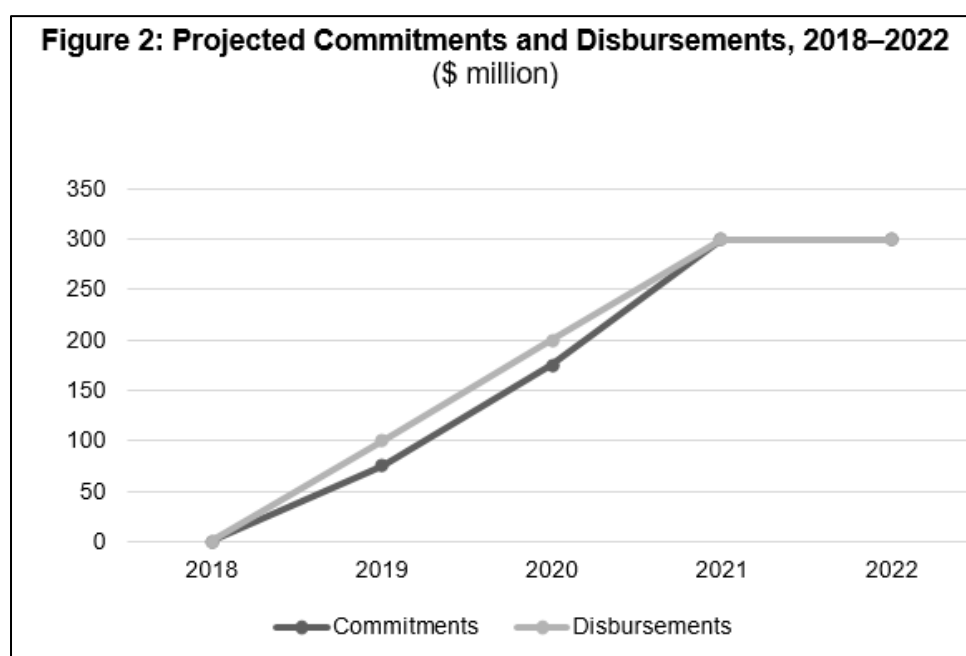
8. Section not applicable to financial intermediary loans.

B. Key Assumptions

9. The following key assumptions underpin the cost estimates and financing plan:⁴

- (i) Exchange rate: ₹65.005 = \$1.00 (as of 26 February 2018).
- (ii) ADB funding catalyzes 12.5% of private sector investments on eligible infrastructure PPP subprojects.

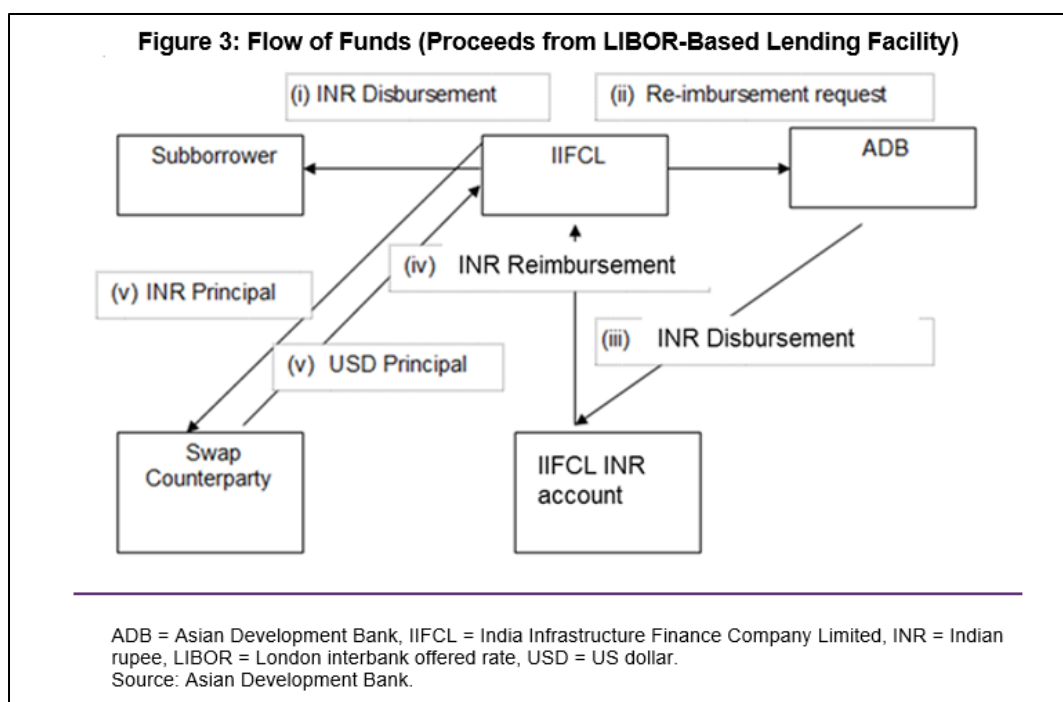
C. Contract and Disbursement S-Curve



D. Fund Flow Diagram

10. IIFCL will initiate subproject disbursement and then seek reimbursement. ADB will disburse to IIFCL's onshore bank account in the same currency as IIFCL made the disbursement. IIFCL, at its discretion, will enter into United States dollar-Indian rupee swap transactions to hedge the foreign exchange risk of these USD liabilities. IIFCL will make interest and principal payments in USD.

⁴ Source: Staff estimates.



V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

11. The financial management assessment (FMA) was conducted in March 2018 in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects and the Financial Due Diligence: A Methodology Note. The FMA considered the capacity of the IIFCL, including funds-flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and internal and external auditing arrangements. Based on the assessment, the key financial management risks identified are internal audit, credit risk management, and management information systems. It is concluded that the overall pre-mitigation financial management risk of IIFCL is moderate. Accordingly, IIFCL has the capacity to administer advance fund and statement of expenditures (SOE) procedures. IIFCL has agreed to implement an action plan as key measures to address the deficiencies. The attached TA will also help IIFCL strengthen its operations in: (i) financial management by (a) evaluating and improving IIFCL's risk management framework, (b) strengthening its management information systems, (c) developing multiyear financial projections, and (d) updating its credit risk models and (ii) social and environmental safeguards by (a) training IIFCL on best practices in implementing projects with significant safeguard risks (category A) and (b) funding safeguard monitoring reviews of ADB-funded projects. The financial management action plan is provided in Table 4.

Table 4: Financial Management Action Plan

Weakness	Mitigation Actions	Responsibility	Timeframe
IIFCL has transitioned since 2015 from outsourced to in-house internal audit. There are five staff appointed to the function, one of who is at a senior level and reports to the managing director and presents	Segregate the responsibilities of internal audit so that internal audit staff do not have responsibility for risk management or any other auditable function	IIFCL	June 2019

Weakness	Mitigation Actions	Responsibility	Timeframe
quarterly to the audit committee of the board. However, the head of audit is also concurrently serving as the head of risk management.			
IIFCL is at the end of a multiyear effort to replace its various management information systems with a unified system. The general ledger, originations, treasury, and others have completed the transition. Risk management and asset-liability management are among the key functions remaining to be integrated.	Adequately integrate its management information systems	IIFCL	December 2019
IIFCL finances subprojects across a variety of infrastructure sectors. Subproject risks depend on sponsor strength, offtaker or traffic risk, and other project-specific factors.	Implement the Supporting Accelerating Infrastructure Investment Facility transaction technical assistance to strengthen IIFCL's risk management including: (i) a risk management gap analysis; (ii) submission of recommendations from the gap analysis to the board of directors; (iii) implementation of any recommended short-term action; and (iv) upgrading IIFCL's major credit models.	ADB and IIFCL	December 2022

ADB = Asian Development Bank, IIFCL = India Infrastructure Finance Corporation Limited.
Source: Asian Development Bank.

B. Disbursement

12. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time),⁵ and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available.⁶ Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

13. IIFCL will follow the ADB reimbursement procedures for qualified subprojects which IIFCL has incurred and paid for out of its own resources, as set out below:⁷

- (i) IIFCL submits: (a) a Withdrawal Application for Reimbursement (Appendix 7A of

⁵ The handbook is available electronically from the ADB website (<https://www.adb.org/documents/loan-disbursement-handbook>).

⁶ Disbursement eLearning. http://wpqr4.adb.org/disbursement_elearning.

⁷ Applicable forms are in ADB. 2017. *Loan Disbursement Handbook* (as amended from time to time).

ADB Loan Disbursement Handbook) for one or several subprojects and (b) a Statement of Expenditures of Qualified Subprojects (Appendix 7D of ADB Loan Disbursement Handbook).

- (ii) IIFCL will retain (but not submit) a record of full documentations on the qualified subproject (and are available, at all times, to ADB for audit purposes and spot reviews), including: (a) subloan evaluation form that includes procurement arrangements, (b) project information memorandum, (c) ADB safeguards clearance on the subproject due diligence report, (d) environmental impact assessment or an initial environmental examination, (e) latest copy of the lenders' independent engineer's report regarding physical progress (applicable for qualified greenfield subproject), (f) audited financial statements of the project special purpose vehicle (SPV) used for determining the debt service coverage ratio (DSCR) (applicable for qualified refinancing or takeout finance subproject); (g) utilization certificate endorsed by lender's agent; and (h) evidence of IIFCL's payment to the subproject.
- (iii) For subsequent withdrawal applications for the same qualified subprojects, IIFCL will retain (but not submit): (a) the updated copy of the lenders' independent engineer's report regarding physical progress, (b) audited financial statements of the project SPV used for determining the DSCR (applicable for qualified refinancing or takeout finance subproject), (c) a utilization certificate endorsed by the lender's agent, and (d) an evidence of payment made by IIFCL to the subproject.
- (iv) ADB will reimburse IIFCL in the same currency (Indian rupee or USD) that IIFCL used for the subloan into an account that IIFCL nominates.

14. ADB's disbursements will be through real time gross settlement system of India, wherein ADB transfers rupees into ADB's depository bank in India. The depository bank will transfer to IIFCL's bank in India through the real time gross settlement system.

15. 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 applications on behalf of the government, together with the authenticated specimen signatures of each authorized person. The value per withdrawal is at least \$100,000 equivalent for disbursements of USD, unless otherwise accepted by ADB. Individual payments below such amount should be paid by IIFCL and subsequently claimed to ADB through reimbursement, unless otherwise accepted by ADB. The borrower should ensure sufficient category and contract balances before requesting disbursements.

C. Accounting

16. IIFCL will maintain, or cause to be maintained, separate books and records by funding source for all expenditures incurred on the project following accrual-based accounting following Indian accounting standards. IIFCL will prepare a statement of utilization of funds in accordance with the government's accounting laws and regulations which are consistent with international accounting principles and practices.

D. Auditing and Public Disclosure

17. IIFCL will cause the detailed statement of utilization of funds to be audited in accordance with the Standards on Auditing issued by the Institute of Chartered Accountants of India by an independent auditor acceptable to ADB. IIFCL will present the audited statement of utilization of

funds together with the auditor's opinion in the English language to ADB within 6 months from the end of the fiscal year.

18. 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.

19. The audit report for the statement of utilization of funds will include a management letter (if one is not provided with the entity-level financial statements) and auditor's opinions, which cover (i) whether the statement of utilization of funds 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 IIFCL was in compliance with the financial covenants contained in the legal agreements. A sample of an engagement letter for the management letter and a template for the management letter are included in Appendixes 2 and 3.

20. 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.

21. The government and IIFCL 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.⁸ ADB reserves the right to require a change in the auditor (in a 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.

22. 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 2011.⁹ 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.¹⁰

⁸ ADB's approach and procedures regarding delayed submission of audited project financial statements:

- (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 advance 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 advance 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.

⁹ [ADB Public Communications Policy](#).

¹⁰ 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).

VI. PROCUREMENT

23. **Retroactive financing.** Retroactive financing up to \$60 million, the equivalent of 20% of the total ADB loan, incurred before loan effectiveness but not more than 12 months before the signing of the loan agreement is allowed.

24. All retroactive financing will be undertaken in conformity with ADB Procurement Guidelines (2015, as amended from time to time) and ADB's Guidelines on the Use of Consultants (2013, as amended from time to time). Retroactive financing will be subject to ADB approval. The borrower retroactive financing does not commit ADB to finance the project.

25. **Free limit.** ADB will, subject to its policies and procedures, extend a free limit for IIFCL of up to \$30 million for qualified greenfield and take-out financing subprojects.

VII. SAFEGUARDS

26. IIFCL will apply its environmental and social safeguards framework (ESSF) (2016) to all subprojects. The environment and social safeguards management unit (ESMU) will be responsible for undertaking due diligence, supervision and monitoring in accordance with the ESSF and this section of the PAM.

27. IIFCL will ensure sufficient due diligence for subprojects to confirm that (i) national and state laws and regulations for environment, health and safety, involuntary resettlement, and indigenous peoples are followed and (ii) sub-borrowers have the commitment and capacity to follow them including sufficient budget and human resources.¹¹ Subprojects that are not compliant with national and state laws and regulations are not eligible for ADB funds. Additionally, through the lead bank, IIFCL will require sub-borrowers to submit regular safeguards monitoring reports (statutory monitoring reports) and require the lender's independent engineer's (LIE) report (applicable on qualified greenfield subprojects) on safeguards implementation to support IIFCL's annual ESSF implementation report. Copies of the safeguards monitoring reports and LIE reports on safeguards implementation will be reviewed by IIFCL.

28. ADB and IIFCL have agreed to include the following additions to existing procedures to supplement IIFCL's ESSF:

- (i) IIFCL will screen and categorize all subprojects under tranche 3 using ADB checklists. Subprojects categorized as ADB category A for environment or involuntary resettlement or category A or B for indigenous peoples will not be eligible;
- (ii) For proposed subprojects IIFCL will provide: (a) subproject description, (b) use of IIFCL funding (scope of subproject), and (c) location with internet map or internet link to a map.¹² IIFCL will also provide this information when new projects are added to the pipeline. If, based on this information, ADB has concerns that a pipeline project may, because of differences between ADB Safeguard Policy Statement (SPS) (2009) and India's laws and regulations, be classified as category A under the former, ADB will recommend excluding the project from the pipeline or the steps IIFCL need to take to confirm it is not category A.
- (iii) For qualified subprojects, where land acquisition, compensation, and resettlement

¹¹ For the avoidance of doubt, any reference to environmental regulations also includes health and safety.

¹² For linear projects, such as roads, transmission lines, etc., IIFCL may not be able to provide a complete internet map for the entire length of the project. In such circumstances, IIFCL will provide proximate mapping information to ADB's satisfaction.

is ongoing before IIFCL involvement, IIFCL will document in each such subproject's due diligence report that land acquisition and resettlement was not in anticipation of IIFCL (and thus ADB) financing and provide supporting documents as evidence, including social compliance audit where applicable.

- (iv) IIFCL will submit each subproject's due diligence report (including justification for categorization, copies of safeguards documents, summary of concerns raised during site visit consultations, and feedback given by IIFCL to the concessionaire) to ADB for review prior to disclosure on the ADB website. Where national and state laws and regulations do not require an environmental assessment to be undertaken, IIFCL shall be responsible for identifying the potentially significant impacts and demonstrating that they are adequately mitigated.
- (v) IIFCL, in supervising and monitoring each subproject, will conduct annual safeguard site visits to 25% of the projects financed under tranche 3, and ADB will have the option to select the projects that will be visited. Site visits should check (a) if sub-borrowers are complying with national and state laws and regulations, (b) the implementation and enforcement of any environmental management plans (EMPs) and corrective actions, and (c) that there have been no changes in project scope or unanticipated risks or impacts that have not been adequately addressed. IIFCL will inform ADB as soon as they become aware of any unanticipated risks or impacts associated with a subproject.

29. Through its supervision and monitoring, IIFCL will ensure that all subprojects will continue to comply with national and state laws and regulations and requirements of the ESSF (2016), any EMPs, and the requirements of this Section VII.

30. IIFCL will prepare and submit to ADB annual reports on the implementation status of the ESSF (2016). IIFCL and ADB will agree on corrective actions should annual monitoring find that the ESSF (2016) is not functioning well. IIFCL will also ensure that the ESMU has sufficient and qualified staff.

31. **Prohibited investment activities.** Pursuant to ADB's Safeguard Policy Statement (2009), ADB funds may not be applied to the activities described on the ADB Prohibited Investment Activities List set forth at Appendix 5 of the SPS (2009). IIFCL will ensure that their investments are in compliance with applicable national laws and regulations and will apply the prohibited investment activities list (Appendix 5 of SPS) to subprojects financed by ADB.

VIII. GENDER AND SOCIAL DIMENSIONS

32. The project has minimal gender dimensions. However, IIFCL will promote adherence to national core labor standards, gender equality, and women's empowerment as consistent with the government's legislations and regulations.

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING AND COMMUNICATION

A. Project Design and Monitoring Framework

DESIGN AND MONITORING FRAMEWORK FOR PROJECT 3

Impact of the Facility is Aligned with Investments in infrastructure increased (India Three Year Action Agenda 2017–2018 to 2019–2020) ^a			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
Outcome Private sector investment in infrastructure PPPs facilitated	By December 2023, \$2.4 billion of private sector investments on eligible infrastructure PPP subprojects catalyzed (January 2017 baseline: \$5.4 billion of private sector infrastructure investments catalyzed in PPPs under tranche 1)	Annual report of IIFCL	Slow financial closure of subprojects because of weaknesses in the infrastructure sector or in the balance sheets of other financial institutions that have historically lent to the infrastructure sector IIFCL's focus is compromised because of alleged or actual incidents of fraud
Outputs 1. Availability of long-term finance for PPP subprojects enhanced	1. By December 2022, at least 13 PPP subprojects are financed under tranche 3 utilizing the \$300 million loan amount (January 2017 baseline: 12 PPP subprojects funded under tranche 1)	1a. Annual audited statement of utilization of funds and semi-annual progress reports from IIFCL	
2. Operational capacity of IIFCL improved	2a. By December 2019, management information systems adequately integrated (January 2017 baseline: only select systems integrated and unvalidated) 2b. By December 2019, IIFCL risk management analysis undertaken and recommendations submitted to its board of directors (January 2017 baseline: not applicable) 2c. By December 2020, IIFCL staff report increased	2a. Assessment from an independent third party 2b. Copy of the report with cover letter from IIFCL indicating date of the submission to its board 2c. Copy of consultant report	IIFCL cannot materially integrate its management information systems because of the incompatibility of legacy systems

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Risks
	knowledge management of safeguards for infrastructure projects rated category A (January 2017 baseline: not applicable)		
Key Activities with Milestones 1. Availability of long-term finance for PPP subprojects enhanced 1.1 IIFCL disburses financing to 13 PPPs (Q4 2018–Q4 2021) 2. Operational capacity of IIFCL improved 2.1. An Independent third party assesses the adequacy of IIFCL's management information systems (Q2–Q4 2019) 2.2 IIFCL performs a gap analysis of its credit risk management and submits recommendations to its board of directors (Q2–Q4 2019) 2.3 IIFCL completes in-house training, a study of international practices, and a facilitated review of a non-ADB funded project with significant safeguard impacts (Q2 2019–Q4 2020)			
Inputs ADB: \$300 million (OCR loan); \$500,000 (transaction technical assistance: Technical Assistance Special Fund)			
Assumptions for Partner Financing Not applicable			

ADB = Asian Development Bank, IIFCL = India Infrastructure Finance Company Limited, OCR = ordinary capital resources, PFR = periodic financing request, PPP = public–private partnership, Q = quarter.

Note: A total of 30 PPP (i.e. 17 PPP subprojects under tranche 1 and 13 PPP subprojects under tranche 2) have been committed by IIFCL for the entire \$700 million facility under facility design and monitoring framework.

^a Government of India, NITI Aayog. 2017. [India: Three Year Action Agenda, 2017-18 to 2019-20](#). New Delhi.

Sources: Asian Development Bank and India Infrastructure Finance Company Limited.

B. Monitoring

33. **Project performance monitoring.** IIFCL will provide provisional semiannual reports by 10 April and 10 October on the project's output and outcome indicators (Appendix 4) and final semiannual reports within 15 days of board approval. These semiannual reports will provide information necessary to update ADB's project performance reporting system.¹³ Additionally, the government will hold periodic tripartite review meetings and ADB will field periodic review missions.

34. **Compliance monitoring.** IIFCL will include in its semiannual reports updates on (i) any conditions subsequent to loan effectiveness, (ii) the loan covenants, and (iii) any terms and conditions that require ongoing compliance.

35. **Safeguards monitoring.** As described in Section VII, ADB will review the safeguards of proposed subprojects and, with the attached TA, will facilitate 8 semiannual safeguard review missions under the loan and provide training to IIFCL staff integrating classroom work with site visits. If IIFCL staff accompanies these semiannual visits, the sites may count toward their annual requirements to conduct site visits to 25% of the subprojects. Additionally, IIFCL will prepare an annual safeguard report within three months of the end of the fiscal year.

¹³ Information on ADB's project performance reporting system is available at <https://www.adb.org/sites/default/files/institutional-document/33431/pai-6-05.pdf>

C. Evaluation

36. ADB will generally meet with IIFCL management on a quarterly basis to evaluate progress. A midterm evaluation is scheduled for the second quarter of 2020. Within 6 months of physical completion of the project, IIFCL will submit a project completion report to ADB.¹⁴

D. Reporting

37. IIFCL will provide ADB with:
- (i) provisional semiannual progress reports consistent with Appendix 4 within 10 days of the end of the quarter and final semiannual progress reports within 15 days of board approval;
 - (ii) annual safeguards monitoring reports in respect of the implementation status of the ESSF within 3 months of the end of the fiscal year;
 - (iii) if any unanticipated environmental and/or social risks and impacts arise during qualified subproject implementation, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan;
 - (iv) report any actual or potential breach of compliance with the requirements set forth in the ESSF, the FAM, and the government's national and state level policies, laws and regulations relating to the environment (including health and safety), resettlement, and indigenous peoples; and
 - (v) a facility completion report within 6 months of the completion of the facility.

E. Stakeholder Communication Strategy

38. The communications requirements of the multitranche financing facility (MFF) at the overall ADB project level are minimal since there are no direct social or environmental impacts or behavior change activities stemming from the financing facility. Communications activities will therefore focus on media and corporate communications regarding the value of ADB's sustained partnership with IIFCL and the potential and actual positive outcomes made possible by the MFF. These can contribute to encouraging active use of the facility and raising broad awareness of ADB, IIFCL, and the benefits of improved infrastructure.

39. However, the MFF will indirectly finance a variety of infrastructure projects, such as roads and energy projects that have the potential for social and environmental risks to and impacts on affected communities. All projects financed by the MFF need to have engaged and continue to engage with all affected communities and persons (including the disadvantaged and vulnerable) through timely information disclosure, consultation, and informed participation in a manner commensurate with the risks to and impacts on them. Use of project specific communication, if needed, to assist in ensuring meaningful consultation is undertaken. Compliance should be led by the project companies themselves with monitoring from IIFCL.

X. ANTICORRUPTION POLICY

40. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.¹⁵ All subprojects financed by ADB shall include

¹⁴ Information on project completion report is available at: <https://www.adb.org/sites/default/files/business-guide/33431/pai-6-07a.pdf>

¹⁵ [ADB Anticorruption and Integrity: Policies and Strategies.](#)

provisions specifying the right of ADB to audit and examine the records and accounts of IIFCL and all project contractors, suppliers, consultants, and other service providers. Individuals and/or entities on ADB's anticorruption debarment list are ineligible to participate in ADB-financed activity and may not be awarded any contract under the project.¹⁶

41. To support these efforts, relevant provisions are included in the loan regulations

XI. ACCOUNTABILITY MECHANISM

42. People who are, or may in the future be, adversely affected by the project may submit complaints to ADB's Accountability Mechanism. The Accountability Mechanism provides an independent forum and process whereby people adversely affected by ADB-assisted projects can voice, and seek a resolution of their problems, as well as report alleged violations of ADB's operational policies and procedures. Before submitting a complaint to the Accountability Mechanism, affected people should make an effort in good faith to solve their problems by working with the concerned ADB operations department. Only after doing that, and if they are still dissatisfied, should they approach the Accountability Mechanism.¹⁷

XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL

¹⁶ ADB's integrity office website: <https://www.adb.org/site/integrity/main>.

¹⁷ ADB's accountability mechanism website: <https://www.adb.org/site/accountability-mechanism/main>.

SAMPLE AUDIT LETTER
ASIAN DEVELOPMENT BANK

South Asia Department
Sector Division/Regional or Resident Mission

[Date]

IIFCL

Dear Sir/Madam:

Subject: Accelerating Infrastructure Investment Facility in India
Financial Reporting and Auditing Requirements

1. This letter is to ensure your timely compliance with the loan covenants and the quality of financial information as required by ADB. ADB's *Handbook for Borrowers on the Financial Governance and Management of Investment Facilities Financed by the ADB* (the Booklet) is enclosed to guide you.

2. ADB, by its Charter, is required to ensure that the proceeds of any loan made, guaranteed, or participated in by ADB are used for the purposes in which the loan was approved. ADB requires accurate and timely financial information from its borrowers to be assured that expenditure was for the purposes stated in the loan agreement.

3. For this particular project, the requirements are stipulated in sections _____ and _____ of the loan agreement of _____ between ADB and IIFCL and sections _____ and _____ of the project agreement of _____ between ADB and IIFCL. Copies of the loan/project agreements are enclosed for onward transmission by your office to your EA and the auditor(s), together with a copy of this letter.

4. The following are the main requirements:

ADB requires IIFCL to maintain separate accounts and records related to the project to ensure that the loan funds were used only for the objectives set out in the loan or facility agreements.

The first audited statement of utilization of funds to be submitted to ADB covers the fiscal year ending _____. As stipulated in the loan agreement, they are to be submitted up to six months after the end of the fiscal year. For this loan, the deadline is by _____. A sample report format, with explanatory notes, is attached as Annex A.

The accounts and records for the project are to be consistently maintained by using sound accounting principles. Please stipulate that your external auditor is to express an opinion on whether the financial report has been prepared using international or local generally accepted accounting standards and whether they have been applied consistently.

Please ensure that your external auditor specifies in the auditor's report the appropriate auditing standards they used, and direct them to expand the scope of the paragraph in the auditor's report by disclosing the key audit procedures followed.

The external auditor should give his opinion whether or not the audited statement of utilization of funds presents fairly, in all material respects, subprojects funded by ADB.

The external auditor's opinion is also required on whether:

- the proceeds of ADB's loan have been utilized only for the project as stated in the loan agreement;
- the financial information contains data specifically agreed upon between [name of the Borrower or EA] and ADB to be included in the financial statements;
- the financial information complies with relevant regulations and statutory requirements; and
- compliance has been met with all the financial covenants contained in the loan or project agreements.

The auditor's report is to clearly state the reasons for any opinions that are qualified, adverse, or disclaimers.

The audit report should also be accompanied by an Audit Management Letter (which sets out any deficiencies in the internal controls that govern the project and that were identified in the course of the audit, if any).

Actions on deficiencies disclosed by the external auditor in its report are to be resolved by IIFCL within a reasonable time. The external auditor is to comment in the subsequent auditor's report on the adequacy of the corrective measures taken by IIFCL.

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

Yours sincerely,

Director/Country Director
(Sector Division/Regional or Resident Mission)

cc: {External auditor of IIFCL}

Annex AUSD Libor-based
facility

Opening balance

Closing balance (gross of committed but undisbursed subprojects)

Closing balance (net of undisbursed subprojects)

Previous year opening balance

Previous year closing balance (gross of committed but undisbursed
subprojects)

Cumulative amount disbursed

	Subborrower name	Project cost	IIFCL commitment	ADB commitment	Disbursed
1					
2					
3					
4					
5					
Total					

SAMPLE LETTER TO AUDITOR

Date

Auditor
Addressee

Subject: Auditor's Preparation of a Management Letter for the Accelerated Infrastructure Facility in India, Tranche 3

Dear Sir:

Please prepare a Management Letter together with audited annual financial statements for the project. The letter will report on the internal controls and operating procedures of IIFCL covering all aspects included in the normal course of the audit, with recommendations for any changes needed to improve performance within a specified time period. The Management Letter may address only those specific matters that came to the auditor's attention during the review and identifies issues not required to be disclosed in the Annual Financial Report but represent the auditor's concerns and suggestions noted during the audit. It may also include the review of compliance with financial covenants, and actual versus planned performance indicators. It is your prerogative as auditor, to address any matter not agreed upon, but which, in the auditor's opinion, should be drawn to the IIFCL's attention. In addition, please comment on all significant variations between the management report and the annual audited financial statements.

In summary the Management Letter will include:

- Any material weaknesses in the accounting and internal control systems that were identified during the audit;
- Recommendations to rectify identified weaknesses;
- Status of significant matters raised in previous management letters and any corrective actions taken by the organization;
- Practical recommendations on the steps that the organization could take to become materially compliant with the agreed accounting standards (see terms and definitions), together with a time frame for making these changes;
- Any other matters that the auditor considers should be brought to the attention of the organization's management; and
- Any significant matters that the auditor considers should be brought to ADB's attention.

See the Handbook for Borrowers on the Financial Management and Analysis of Projects for reference: <https://www.adb.org/sites/default/files/institutional-document/31337/borrowers-financial.pdf>

Thank you,

India Infrastructure Finance Company Limited

SAMPLE MANAGEMENT LETTER

Date:

Executing Agency

Dear Sir/ Madam,

Management Letter for FYE 31 December 2017

1. At the conclusion of each audit, we issue this management letter summarizing issues which come to our notice during the course of the audit for the project Accelerated Infrastructure Facility in India.
2. Our findings are set out in the Appendix of this letter.
3. We state with necessary reservation that the findings in this letter should not be regarded as an exhaustive record of all deficiencies which may exist, rather should be regarded as potentially useful comments emerging from an audit planned to cover only critical account balances.
4. Please keep us informed of the actions you propose to take on the matters reported. Should you require further clarification on any of the matters set out in this letter, please contact [•].
5. We wish to record our appreciation of the assistance rendered to us on the audit of the Accelerating Infrastructure Investment Facility in India project by the staff of IIFCL.

Sincerely,

Auditor

Appendix to Management Letter

1. **Reporting or operational issue #1.** Description of issue and its potential impact.

Management comments:

2. **Reporting or operational issue #2.** Description of issue and its potential impact.

Management comments:

3. **Reporting or operational issue #3, etc.** Description of issue and its potential impact.

Management comments:

4. **Matters previously reported.** The following table outlines matters previously reported and their current status at the time of audit:

Issue of Risk Reported	<i>Management Representation</i>	Risk/ Issue remains (yes/no)
1.		
2.		
3.		

Management comments:

SEMIANNUAL PROGRESS REPORT

Date:

A. Cumulative Utilization of Funds

Disbursement Number	Date of Disbursement	Amount of Disbursement (\$)
1		
2		
3		
4		
5		

Total Disbursements (\$):**B. DMF Targets**

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and Reporting	Status
Outcome Private sector investment in infrastructure PPPs facilitated	By December 2023, \$2.4 billion of private sector investments on eligible infrastructure PPP subprojects catalyzed	Annual report of IIFCL	
Outputs 1. Availability of long-term finance for PPP subprojects enhanced	1. By December 2022, at least 13 PPP subprojects are financed under tranche 3 utilizing the \$300 million loan amount	1a. Annual audited statement of utilization of funds and semi-progress reports from IIFCL	
2. Operational capacity of IIFCL improved	2a. By December 2019, management information systems adequately integrated	2a: Assessment from an independent third party	
	2b. By December 2019, IIFCL risk management analysis undertaken and recommendations submitted to its board of directors	2b. Copy of the report with cover letter from IIFCL indicating date of the submission to its board	
	2c. By December 2020, IIFCL staff report increased knowledge management of safeguards for infrastructure projects rated category A	2c. Copy of consultant report	

C. Compliance with Covenants

Covenant	Status
Within 6 months of the Effective Date, segregate responsibilities for internal auditor and risk management.	
Within 12 months of the Effective Date, complete in all material respects the integration of its management information systems.	
Within 12 months of the Effective Date, undertake a gap analysis of its risk management and submit the recommendations to its board of directors.	
As of its most recent audited financial statements with Reserve Bank of India's (RBI) regulatory capital minimum for nonbank finance companies—infrastructure finance companies (total regulatory capital ratio of 12% with a minimum tier 1 capital ratio of 8% or as the RBI may revise).	
Have a positive net income as of its most recent audited financial statements.	

D. Major Project Issues and Problems

Summarize any major problems or issues affecting or likely to affect implementation progress, compliance with covenants, and achievement of immediate development objectives. Recommend actions to overcome these problems and issues (e.g. changes in scope, changes in implementation arrangements).