

Project Administration Manual

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Loan Number(s): {LXXXX; TXXXX}
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Sri Lanka: Strengthening the Regional Development Bank Project

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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 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 Regional Development Bank (RDB) is wholly responsible for the implementation of ADB-financed projects, as agreed jointly among RDB (the borrower), the government (the guarantor), and ADB, and in accordance with the policies and procedures of RDB and ADB. ADB staff is responsible for supporting implementation including compliance by RDB of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At loan negotiations, the borrower and ADB shall agree to the PAM and ensure consistency with the loan 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 Board approval of the project's report and recommendations of the President (RRP), 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 PAM.

ABBREVIATIONS

ADB	–	Asian Development Bank
DMF	–	design and monitoring framework
FMA	–	financial management assessment
MOF	–	Ministry of Finance and Economic Affairs
MSEs	–	micro and small-sized enterprises
MSMEs	–	micro, small, and medium-sized enterprises
PMU	–	project management unit
PPMS	–	project performance management system
RDB	–	Regional Development Bank
RRP	–	Report and Recommendation of the President
SOE	–	statement of expenditure
TA	–	technical assistance

I. PROJECT DESCRIPTION

1. The Strengthening the Regional Development Bank (RDB) Project and attached technical assistance (TA) to be provided by Japan Fund for Poverty Reduction for Enhancing Rural Micro and Small-Sized Enterprises Finance are aimed at improving micro, small, and medium-sized enterprises' (MSMEs) access to finance in the Democratic Socialist Republic of Sri Lanka through a capital increase for and institutional strengthening of RDB.
2. The project impact will be MSME access to finance enhanced. The project's outcome will be RDB's capacity to serve its MSME clients strengthened.
3. The project's outputs will be (i) RDB's operations expanded, (ii) RDB's operational capacity strengthened, and (iii) capacity of micro and small-sized enterprises (MSEs) to access financial services enhanced.
4. ADB will provide a loan to RDB. The loan will be disbursed against eligible MSE subprojects (Loan Agreement, Section 3.01) and be structured to qualify as tier 2 capital. ADB's loan will be guaranteed by Sri Lanka.
5. The project includes several measures to strengthen RDB's operations (Appendix 1). The TA will support the implementation of these measures. The successful implementation of these measures would facilitate ADB's Board approval of any additional financing.

II. IMPLEMENTATION PLANS

A. Project Readiness Activities

Table 1: Project Readiness Activities

Indicative Activities	2018						2019		Responsible Individual/Unit/ Agency/Government
	7	8	9	10	11	12	1	2	
Financial and integrity due diligence on RDB conducted	▲	▲	▲						ADB
Stakeholder analysis and consultation have been undertaken and are reflected in the project documents	▲	▲	▲						ADB
Major risks (including governance) have been identified, and mitigating measures are indicated	▲	▲	▲						ADB
Establish project implementation arrangements			▲	▲	▲	▲			ADB, RDB
Loan negotiations				▲					ADB
ADB Board approval								▲	ADB
Loan, guarantee and project agreements signing								▲	ADB, MOF, RDB
Government legal opinion provided				▲	▲	▲	▲	▲	MOF, MPEKCD, AGD, RDB
Loan effectiveness								▲	MOF, RDB, ADB
First disbursement						▲			ADB, RDB

ADB = Asian Development Bank, AGD = Attorney General Department, MOF = Ministry of Finance and Economic Affairs, MPEKCD = Ministry of Public Enterprise and Kandy City Development, RDB = Regional Development Bank.
Source: Asian Development Bank.

B. Overall Project Implementation Plan

6. The scheduled implementation period, including the loan and the TA, is 3 years (February 2019–February 2022).

Table 2: Overall Project Implementation Plan

Key Activities	2019				2020				2021				2022
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1
A. DMF													
Output 1													
1.1 Disburse \$25 million to RDB for onlending to MSEs													
1.2 Relaunch RDB's deposit mobilization program													
1.3 Disburse \$25 million for onlending to MSEs													
Output 2													
2.1.1 Prepare a corporate strategy to increase outreach													
2.1.2 Prepare a marketing plan													
2.2 Prepare a new risk management framework													
2.3 Prepare an environmental and social safeguards system													
2.4.1 Develop a procurement plan for loan origination system revise credit risk management system													
2.4.2 Revise credit risk management system													
2.5. Administer training to loan officers on loan appraisal													
Output 3													
3.1 Prepare a white paper evaluating government MSME support programs													
3.2 Train 500 women clients													
B. Management Activities													
1. Conduct TA inception mission and approve TA inception report													
2. Conduct gender gap analysis and approve gender development plan													
3. Enhance management information system to generate more detailed customer reports including sex-disaggregated report													
4. Approve a 0.50% interest rate discount on the trained women													
5. Conduct training-of-trainer to 60 RDB staff													
6. Procure and install a new loan origination system													
7. Submit withdrawal application to ADB													
8. Submit semiannual project report to steering committee for discussion (ADB's semi-annual review)													
9. Submit annual environmental performance report to ADB													
10. Project completion report													

ADB = Asian Development Bank, DMF = design and monitoring framework, MSE = micro and small-sized enterprise, MSME = micro, small, and medium-sized enterprise, Q = quarter, RDB = Regional Development Bank, TA = technical assistance.

Source: Asian Development Bank.

III. PROJECT MANAGEMENT ARRANGEMENTS

A. Project Implementation Organizations: Roles and Responsibilities

1. Steering Committee

7. A steering committee will oversee project implementation. The members of the steering committee are:

- (i) secretary or designate, Ministry of Public Enterprise and Kandy City Development or its successor;
- (ii) representatives from relevant departments of the Ministry of Finance and Economic Affairs;
- (iii) a representative from the Department of External Resources;

- (iv) the general manager, chief financial officer, and one deputy general manager from RDB; and
- (v) a representative from the ADB.

8. The steering committee's secretariat will be performed by the project management unit (PMU) of RDB.

9. The principal function of the steering committee is to discuss and advise RDB on policy issues relevant to the implementation and management of the project, inter alia:

- (i) supervision of the project, including monitoring the progress of institutional strengthening measures (Appendix) for RDB; and
- (ii) any other issues related to the smooth operation of the project.

10. The steering committee will convene semiannually during the first 24 months of implementation and thereafter as needed.

2. Project Management Unit

11. A PMU will be established at RDB with nine officers. The proposed PMU structure will include two finance officers, two project officers, two data officers, and one safeguards officer to be overseen by a manager for credit, one human resource officer, and one information technology officer. The attached TA will support the PMU by sending a national safeguard expert on a full-time basis and a national banking expert on intermittent basis over the first 24 months.

12. RDB's chief financial officer will be the project director and PMU head. The project director will be primarily responsible for project implementation and PMU management. Where feasible, the PMU will be staffed with officials who have prior experience with ADB projects.

13. The various functions of the PMU, which include implementation, administration, and operation of the loan project on behalf of the implementing agency are shown below:

- (i) Administration and appraisal
 - (a) approval and disbursement of the funds to MSE subborrowers,
 - (b) submission of statement of expenditure (SOE), and
 - (c) submission of withdrawal requests.
- (ii) Treasury
 - (a) receipt of ADB advance in foreign currency and spot conversion of it into local currency.
- (iii) Monitoring and Reporting
 - (a) preparation of semi-annual project progress reports, annual audited reports and the project completion report;
 - (b) preparation of monthly progress reports on loan disbursement to MSE subborrowers; and
 - (c) ensuring compliance with loan agreements in terms of safeguard management and gender-related actions.

14. The PMU will also oversee the implementation of the institutional strengthening measures with support from ADB's attached TA.¹

¹ Attached Technical Assistance (accessible from the list of linked documents in Appendix 2 of the Report and Recommendation of the President to the Board of Directors).

Table 3: Summary of Implementation Arrangements

Project Implementation Organizations	Management Roles and Responsibilities
Ministry of Finance and Economic Affairs	<ul style="list-style-type: none"> ➤ act as guarantor for the ADB's loan and monitor RDB as part of the steering committee and ➤ act as the implementing agency for the white paper to be prepared under the technical assistance
Regional Development Bank	<ul style="list-style-type: none"> ➤ act as the executing and implementing agency for the loan and the technical assistance except for the white paper; ➤ lead the project management unit; ➤ assess credit worthiness of subborrowers and financial viability of subprojects; ➤ implement and ensure compliance with the selection criteria for subborrowers, subprojects, and subloans and with covenants in project agreement; ➤ ensure that the qualified subborrowers comply with ADB's Safeguard Policy Statement and applicable environmental, health and safety, and social laws and regulation of the borrower; ➤ submit to ADB monthly progress report on loan disbursement to subborrowers; ➤ submit to ADB annual audited entity-level financial statements with the auditors' report and management letter; ➤ submit to ADB audited statement of utilization of funds; ➤ submit to ADB annual safeguards monitoring report; ➤ respond to other information requests as required by ADB; and ➤ implement institutional strengthening measures with support from ADB's technical assistance.
Asian Development Bank	<ul style="list-style-type: none"> ➤ prepare a project completion report within 12 to 24 months from project closing date; ➤ provide overall project coordination; ➤ monitor RDB's compliance with project agreement covenants, which includes verifying compliance with (i) the onlending requirements for eligible MSE subborrowers and (ii) preparation of initial environmental examination (after the environmental and social management system is established); ➤ monitor achievement of the project's targets established in the design and monitoring framework; ➤ monitor progress of gender action plan; ➤ conduct periodic field review of implementation; and ➤ implement the attached technical assistance.

ADB = Asian Development Bank, MSE = micro and small-sized enterprises, RDB = Regional Development Bank.

Note: The output 3(b) of the TA is preparing a white paper evaluating the effectiveness of government SME support programs with an emphasis on women borrowers.

Source: Asian Development Bank.

B. Key Persons Involved in Implementation

Executing Agency

Regional Development Bank

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Chief Financial Officer

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Asian Development Bank

Public Management, Financial

Sector, and Trade Division

(SAPF)

South Asia Department (SARD)

Mr. Bruno Carrasco

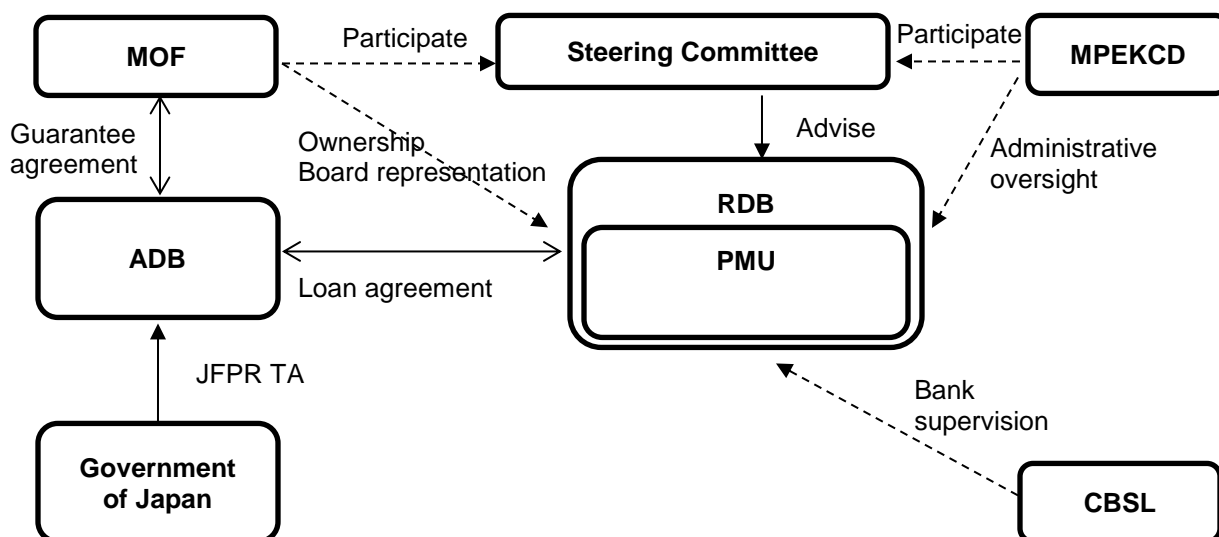
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C. Project Organization Structure



ADB = Asian Development Bank, CBSL = Central Bank of Sri Lanka, JFPR = Japan Fund for Poverty Reduction, MOF = Ministry of Finance and Economic Affairs, MPEKCD = Ministry of Public Enterprise and Kandy City Development, PMU = Project Management Unit, RDB = Regional Development Bank, TA = technical assistance.

15. Please see Table 2 of the project's Report and Recommendation of the President to the Board of Directors (RRP) for the financing plan.

IV. COSTS AND FINANCING

A. Allocation and Withdrawal of Loan Proceeds

16. **ADB loan (ADB to RDB).** RDB will be the borrower. The ADB loan will have a bullet repayment that is due 12.75 years from the initial disbursement, an annual interest rate 50 basis point above the 6-month London interbank offered rate (LIBOR), and paid semiannually in accordance with ADB's LIBOR-based lending facility,² a commitment charge of 0.15% per year, and such other terms and conditions set forth in the loan and guarantee agreements. RDB may at its option elect to fix the interest rate. Based on the repayment terms, the average maturity is 12.75 years and there is no maturity premium payable to ADB. The ADB loan to RDB is structured to be a sovereign-guaranteed subordinated debt qualified as tier 2 capital.

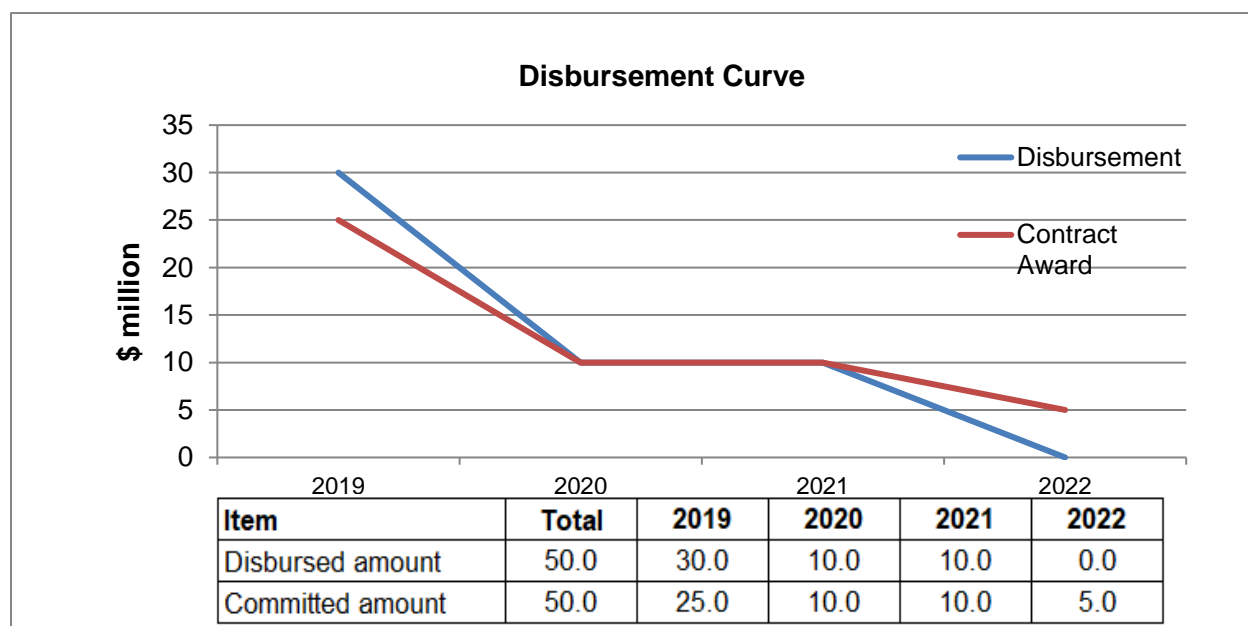
17. **Onlending (Regional Development Bank to micro and small-sized enterprises).** RDB will onlend the loan proceeds to eligible MSEs at interest rates that reflect RDB's cost of funds plus a spread to cover transaction costs and risks reflecting full commercial and competitive terms

² The interest will not include any maturity premium. This is based on the above loan terms and the government's choice of repayment options and dates.

at the RDB's discretion. RDB can onlend ADB's loan proceeds in local currency or foreign currency. RDB will bear the foreign exchange risks when it onlends in foreign currency. The ADB loan will finance 100% of the RDB's subloans up to the individual transaction ceiling of Rs50 million for individual lending and Rs100 million for People's Corporations or the equivalent amounts in foreign currency.³

18. **Sovereign guarantee.** If there is an event of default, ADB will issue a notice to the Ministry of Finance and Economic Affairs (MOF) for immediate repayment and MOF will have the option to subrogate as per the guarantee agreement between MOF and ADB.

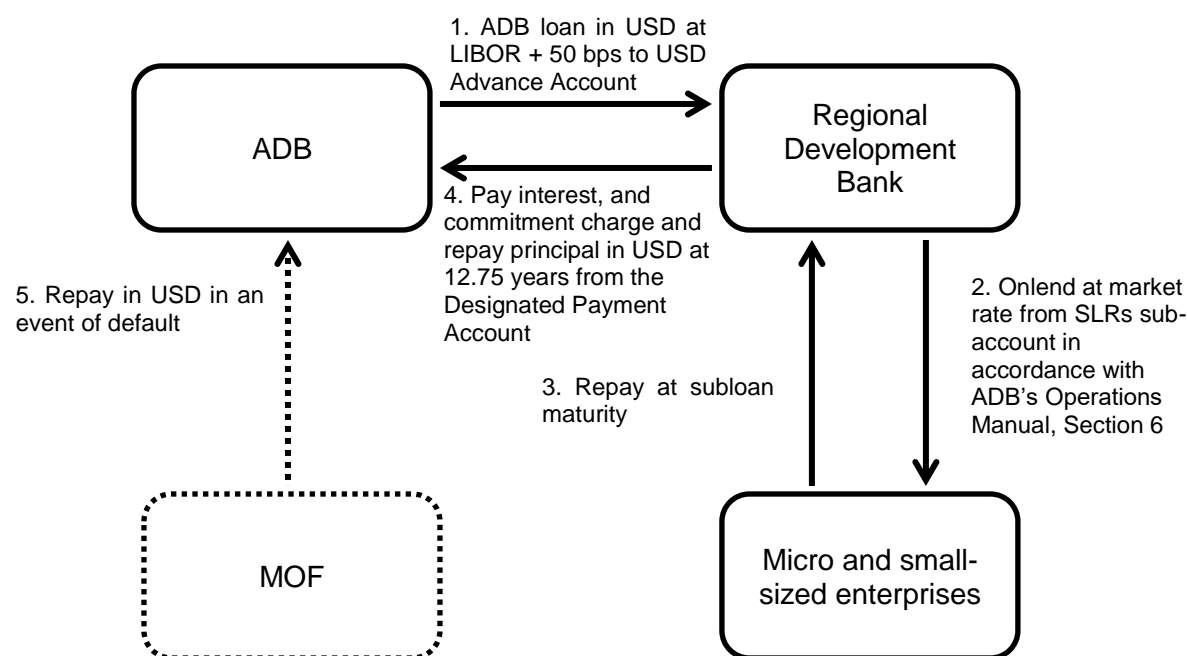
B. Disbursement S-Curve



Source: Asian Development Bank.

³ The foreign exchange rate applied for computing the subloan size is a spot rate on the date of subloan contract made effective.

C. Fund Flow Diagram



ADB = Asian Development Bank, LIBOR = London interbank offered rate, MOF = Ministry of Finance and Economic Affairs, USD = United States dollar.
Source: Asian Development Bank.

V. FINANCIAL MANAGEMENT

A. Financial Management Assessment

19. The financial management assessment (FMA) was conducted in September 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 RDB, including funds-flow arrangement, 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 in FMA (accessible from the list of linked documents in the Appendix 2 of the RRP). FMA concluded that the overall pre-mitigation financial management risk of RDB is *moderate*. RDB has sufficient capacity to administer the advance fund and statement of expenditure (SOE) procedures. RDB is also regulated by CBSL and has experience in ADB's ongoing SME Line of Credit Project⁴ with satisfactory performance. Based on the above assessment, a financial management action plan (Table 4) was developed to address the deficiencies in RDB's financial management. The financial management action plan is an integral part of and contractually binding under this PAM. Financial management risks and risk mitigation measures will be monitored throughout the life of the project.

⁴ ADB. 2016. *Report and Recommendation of the President to the Board of Directors: Proposed Loan and Administration of Technical Assistance Grant to the Democratic Socialist Republic of Sri Lanka for the Small and Medium-Sized Enterprises Line of Credit Project*. Manila.

Table 4: Financial Management Action Plan

Significant Weakness	Resolution	Timeline	Responsible Party
Qualitative and manual loan appraisal process	Digitized loan origination system implemented.	28 February 2022	RDB
Limited liquidity and market risk management capacity	Revision of liquidity and interest rate risk management framework and reporting.	28 February 2022	RDB
	Introduction of a deposit campaign to ease liquidity pressures.		
	Loan covenant restricting any foreign exchange liabilities apart from ADB's loan.	Loan effectiveness	ADB, RDB
Limited credit risk management capacity	Revised loan scoring system introduced; credit risk management policies reviewed and updated; training of loan origination officers introduced.	28 February 2022	RDB

ADB = Asian Development Bank, RDB = Regional Development Bank.

Source: Asian Development Bank.

B. Disbursement

1. Disbursement Arrangements for ADB Funds

20. 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.

21. ADB's advance fund and SOE procedures will be used. Retroactive financing is also allowed (para. 34).

22. **Advance fund procedure.** RDB will establish a separate advance US dollar account in its name for exclusive use of the project to facilitate disbursements and provide accountability. In addition, RDB will establish a separate local currency (LKR) sub-account for the disbursement to subborrowers. ADB will transfer loan proceeds to RDB's US dollar advance account within its service level standards upon receipt of a satisfactory and fully documented request. The advance USD account and its LKR subaccount are to be used exclusively for ADB's share of eligible expenditures. RDB who administers the advance accounts is accountable and responsible for proper use of advances to the advance accounts.

23. The total outstanding advance should not exceed the estimate of ADB's share of

⁵ Details of SOE procedures are available in the handbook. ADB. 2017. [Loan Disbursement Handbook](#).

⁶ [Disbursement eLearning](#).

expenditures to be paid through the advance accounts for the forthcoming 6 months.⁷ RDB may request for initial and additional advances to the US dollar advance account based on an estimate of expenditure sheet⁸ setting out the estimated expenditures to be financed for the forthcoming 6 months. Supporting documents should be submitted to ADB or retained by the borrower RDB in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

24. **Statement of expenditure procedure.**⁹ The SOE procedure may be used for reimbursement of eligible expenditures (in the case of retroactive finance) or liquidation of advances. RDB will consolidate eligible expenditures and submit to ADB for liquidation. The corresponding bank statement and the advance account reconciliation statement are also required to be submitted. Subloan eligibility information and other supporting documents for the expenditures claimed under the SOE should be maintained and made readily available for review by ADB's disbursement and review missions. They should be submitted to ADB only as needed.

25. Before the submission of the first withdrawal application, RDB should submit to ADB sufficient evidence of the authority of the person(s) who will sign the withdrawal applications on behalf of RDB, together with the authenticated specimen signatures of each authorized person. The minimum value per withdrawal application is stipulated in the *Loan Disbursement Handbook* (2017, as amended from time to time). Individual payments below such amount should be paid through the advance fund procedure, unless otherwise accepted by ADB. RDB should ensure sufficient category and contract balances before requesting disbursements.

C. Accounting

26. RDB will maintain, or cause to be maintained, separate books and records by funding source for all expenditures incurred on the project following national accounting laws and regulations which are consistent with international accounting principles and practices. RDB 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

27. RDB will cause the detailed statement of utilization of funds to be audited in accordance with international standards on auditing and with the government's audit regulations by an independent auditor acceptable to ADB.¹⁰ The audited statement of utilization of funds together with the auditor's opinion and management letter will be presented in the English language to ADB within 6 months from the end of the fiscal year by RDB.

28. The audited entity financial statements, together with the auditor's report and if prepared management letter, will be submitted in the English language to ADB within 1 month after the RDB's board approval.

29. The audit report for the statement of utilization of funds will include a management letter

⁷ The advance request should equal the amount requested through the semiannual allocation plus any funds not yet liquidated to ADB at the time of preparing the withdrawal application. ADB's Controller's Department will disburse the requested amount net of the unliquidated amount.

⁸ Estimate of expenditure sheet is available in Appendix 8A of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time),

⁹ SOE forms are available in Appendix 7B and 7D of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

¹⁰ In the case of RDB, auditors appointed by the auditor general constitute an independent auditor.

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 purposes of the project; and (iii) whether RDB was in compliance with the financial covenants contained in the legal agreements.

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

31. RDB has been made aware of ADB's approach to delayed submission and the requirements for satisfactory and acceptable quality of the audited statement of utilization of funds.¹¹ 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.

32. 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 2011.¹² 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.¹³

VI. PROCUREMENT AND CONSULTING SERVICES

A. Advance Contracting and Retroactive Financing

33. There is no advance contracting.

34. **Retroactive financing.** Retroactive financing will be allowed up to 20% of the loan amount for eligible expenditures incurred prior to loan effectiveness but no earlier than 12 months before the signing of the loan agreement. Expenditures financed by ADB's ongoing SME Line of Credit Project are ineligible.

¹¹ 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.

¹² ADB. 2011. [Public Communications Policy](#).

¹³ This type of information would generally fall under public communications policy exceptions to disclosure: paragraph 97(iv) and/or 97(v).

B. Procurement of Goods, Works, and Consulting Services

35. Procurement under ADB-financed subloans will be in accordance with the applicable procurement policy and regulations as: ADB Procurement Policy: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time), Procurement Regulations for ADB Borrowers: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time) and ADB's Procurement Guidelines (2017, as amended from time to time) as they relate to financial intermediary loans. The procurement will be done following established private sector or commercial practices, acceptable to ADB (paragraph 3.12 of the ADB Procurement Guidelines).

36. All consultants will be recruited by ADB under the associated TA according to ADB's Procurement Policy: Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time).¹⁴

C. Procurement Plan

37. A procurement plan is not applicable for financial intermediary loans.

D. Consultant's Terms of Reference

38. The terms of reference for all consulting services are detailed in Attached Technical Assistance Report (accessible from the list of linked documents in Appendix 2 of the RRP).

VII. SAFEGUARDS

39. Environmental and Social Management System Arrangements (accessible from the list of linked documents in Appendix 2 of the RRP) describes in detail the project's safeguard management arrangements and is an integral component of and its implementation contractually binding under this PAM. On its monitoring component, please refer to paras. 46–47.

VIII. GENDER AND SOCIAL DIMENSIONS

40. Potential gender and social impacts were reviewed. A gender assessment is reflected in the project documents and is an integral part of the project design which is categorized thematically as effective gender mainstreaming (EGM). Overall, the project targets at least 500 of the subborrowers to be women-led MSEs. Furthermore, the associated TA subproject will build women entrepreneurs' capacity to access finance resources and services.

41. Initial assessment of the gender situation of MSMEs in Sri Lanka and ADB's proposed approach was described in Summary Poverty Reduction and Social Strategy (accessible from the list of linked documents in Appendix 2 of the RRP).

42. Consistent with the design criteria of an EGM-categorized project, a gender action plan (GAP) was developed (accessible from the list of linked documents in Appendix 2 of the RRP), which will be implemented during the project implementation period. ADB, in cooperation with RDB and MOF, is responsible for ensuring the effective implementation of the GAP and monitoring its progress and completion. The GAP is an integral component of and its implementation contractually binding under this PAM.

¹⁴ Checklists for actions required to contract consultants by method available in [Handbook on Project Implementation](#).

IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION

A. Project Design and Monitoring Framework

43. Please refer to Appendix 1 of the RRP for project design and monitoring framework (DMF).

B. Monitoring

44. **Project performance monitoring.** To ensure the project is managed efficiently and its benefits are maximized, RDB will implement a project performance management system (PPMS) that is satisfactory to ADB. The key performance indicators and assumptions in the DMF will be the basis for the system. RDB will have such information made available to review missions and to the government for future impact assessment surveys. RDB will submit monthly progress reports and semiannual reports (Appendix 2) to ADB for the duration of the project. The PPMS will monitor and evaluate the project information and data to ensure that planned interventions achieve the desired results, including key output and outcome indicators.

45. **Compliance monitoring.** RDB's compliance with the covenants will be monitored by ADB based on the RDB monthly and semiannual reports, quarterly unaudited entity-level financial statements, annual audited entity-level financial statements, and audited statement of utilization of funds.

46. **Safeguards monitoring.** Periodic review missions will be undertaken by ADB to verify categorizations. The safeguard staff of RDB will prepare an annual environmental performance report¹⁵ and submit this to the management of RDB for review and approval.

47. **Gender and social dimensions monitoring.** The designated RDB safeguards officer (or other designated officer) communicates with the subprojects companies and conducts an annual performance check to ensure that (i) the subproject company is undertaking the obligations of compliance with all applicable environmental and social safeguard requirements and (ii) RDB will promptly report to ADB any actual or potential breach of the compliance requirements through a compilation of incident reports.¹⁶ The RDB will supervise and coordinate with the subborrower so that the subborrower can take corrective action, if any.

C. Evaluation

48. To ensure responsive and timely implementation, ADB will undertake periodic review missions. Within 6 months of the physical completion (i.e. RDB's final disbursement to a subborrower), RDB will submit a project completion report to ADB in a form acceptable to ADB. Subsequently, ADB will field a mission to finalize the project completion report.

D. Reporting

49. The PPMS is ADB's system for setting program objectives, designing projects, and monitoring and evaluating project performance based on the DMF to ensure that goals are consistently being met in an effective and efficient manner. The PPMS will include the following

¹⁵ Sample reporting format provided in the Financial Intermediary: Environmental and Social Management System Arrangement (accessible from the list of linked documents in Appendix 2 of the RRP).

¹⁶ Sample reporting format provided in the Financial Intermediary: Environmental and Social Management System Arrangement (accessible from the list of linked documents in Appendix 2 of the RRP).

components:

Table 5: Project Performance Monitoring

Name of Document	Submitter	Receiver	Timing/ Frequency	Purpose
Withdrawal application	RDB	ADB	Every 6 months	Advance or retroactive financing to the RDB's US dollar advance account
Statement of expenditure	RDB	ADB	As required	Liquidation
Monthly progress report	RDB	ADB and posted to ADB's website	A week after the end of every month	Summary of RDB's disbursements and compliance with onlending requirements
Semiannual project report	RDB	Steering Committee and ADB and posted to ADB's website	Every 6 months	Includes progress reports for the indicators in the design monitoring framework and the gender action plan
Audited statement of utilization of funds	RDB	ADB and posted to ADB's website	Within 6 months of the end of fiscal year	Mandatory under ADB policy (OMJ7)
Audited annual entity-level financial statements (with auditor's report and management letter)	RDB	ADB	Within 1 month of the board approval	Mandatory under ADB policy (OMJ7)
Annual environmental performance report	RDB	ADB and posted to ADB's website	Within 2 months of the end of fiscal year	Applicable if RDB is given permission to originate subloans <i>category B</i> for the environment
Project completion report	RDB	ADB	Within 6 months of the end of the physical completion	Provides initial assessment of the project vis-à-vis the DMF

ADB = Asian Development Bank, DMF = design and monitoring framework, OMF1 = Operations Manual on Financing of Interest and Other Charges During Construction, OMJ7 = Operations Manual on Project Financial Reporting and Auditing, RDB = Regional Development Bank.
Source: Asian Development Bank.

E. Stakeholder Communication Strategy

50. ADB will communicate the information about this project and the outcome of this project through its publications, presentations and on its website. Semiannual project reports will be posted on the ADB's website. ADB will also communicate with the project's internal stakeholders through written documents.

X. ANTICORRUPTION POLICY

51. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.¹⁷ All contracts financed by ADB shall include provisions specifying the right of ADB to audit and examine the records and accounts of the executing agency 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 contracts under the project.¹⁸

52. To support these efforts, relevant provisions are included in the loan agreement and the grant agreement for the project. During the project processing financial management assessment and integrity due diligence were conducted on RDB.

XI. ACCOUNTABILITY MECHANISM

53. 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.¹⁹

XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL

54. All revisions and/or updates during the course of implementation should be retained in this section to provide a chronological history of changes to implemented arrangements recorded in the PAM.

¹⁷ ADB. 1998. [Anticorruption Policy](#).

¹⁸ ADB's [Office of Anticorruption and Integrity](#).

¹⁹ ADB's [Accountability Mechanism](#).

REGIONAL DEVELOPMENT BANK'S INSTITUTIONAL STRENGTHENING MEASURES

The following institutional strengthening measures are proposed to be undertaken so that the Regional Development Bank can financially sustain its current growth level by improving its profitability. The implementation of institutional strengthening measures will be supported by ADB's technical assistance.

Area	Institutional Strengthening Measure	Timeline
Safeguard	Establish and operationalize environmental and social safeguard management framework.	28 February 2020
Gender	Conduct gender gap assessment and prepare a gender development strategy (with support from the ongoing technical assistance funded by the Women Entrepreneurship Financing Initiative).	28 February 2020
Data reporting	Enable RDB's management information system to generate more detailed customer reports and specifically sex-disaggregated report(s) on loans and deposits, to more effectively analyze RDB's business profile.	29 February 2020
Strategy	Formulate a board strategy to enhance outreach to micro and small-sized enterprises and women-led clients.	29 February 2020
Market risk management	Develop RDB's risk management framework for liquidity risk, interest rate risks and foreign exchange risk, which will include better reporting to board committee.	28 February 2021
Credit operations and risk management	Strengthen RDB's credit operations and risk management by (i) upgrading the loan origination system; (ii) developing a credit scoring system, (iii) revising the credit policy and procedures, and (iv) conducting trainings to RDB loan officers on loan appraisal.	28 February 2022
Deposit mobilization	Restructure and relaunch a deposit mobilization program, including a women-targeted deposit product to increase retail saving deposits.	28 February 2021

RDB = Regional Development Bank.

Source: Asian Development Bank.

SEMIANNUAL PROGRESS REPORT

A. Targets from Design and Monitoring Framework, Gender Action Plan, and ADB Results Framework

Targets and Activities	Data Sources and Reporting Mechanisms	Status
By 2022, RDB's annual lending to MSMEs increased by 50%	RDB's annual financial reports	<i>2017 benchmark (Rs): 22.3 billion</i> <i>2022 target (Rs): 33.4 billion</i> <i>Current year (annualized) (Rs):</i>
By 2022, Basel III regulatory capital requirements met	RDB's annual financial reports	<i>2022 T1 target (%): 8.00%</i> <i>Current T1 (%):</i> <i>2022 total target (%): 12.50%</i> <i>Current total (%):</i>
By 2022, RDB's savings deposit annual growth rate increased to 15%	The savings deposit subtotal as reported in RDB's monthly "Financial Position" report	<i>Year-to-date (annualized) (%):</i>
By 2022, at least 60% of the 500 RDB women clients trained submit a business plan that is assessed as viable	Consultant report	<i>Business plans submitted (#):</i> <i>Viable business plans (#):</i> <i>Percent of target (%):</i>
Targets Relating to Output 1: RDB's Operations Expanded		
By 2021, RDB's deposit mobilization program including a women-targeted deposit product restructured and relaunched	Consultant's final report	<i>Status:</i>
By 2022, \$50 million ADB loan disbursed to RDB for onlending to micro and small-sized enterprises	PMU's monthly monitoring reports	<i>Disbursements (\$):</i> <i>Percent of target (%):</i>
By 2022, ADB loan funds 500 subloans to women-led businesses	PMU's monthly monitoring reports	<i>Subloans (#):</i> <i>Percent of target (%):</i>
For women that have passed RDB's course on financial management, RDB provides a 0.50% interest rate discount on the woman's next loan	PMU's monthly monitoring reports	<i>Subloans receiving discount:</i>
Targets Relating to Output 2: RDB's Operational Capacity Strengthened		
By 2020, RDB board strategy to increase outreach to underserved clients including women, approved	Consultant's final report	<i>Status:</i>
By 2020, management information system generates sex-disaggregated report(s) on loans and deposits	Letter from the general manager and copy of sex-disaggregated report	<i>Status:</i>
Prepare a new risk management framework including management and reporting of liquidity, interest rate risk and foreign exchange risk (by 29 February 2020)	Consultant's report	<i>Status:</i>

Targets and Activities	Data Sources and Reporting Mechanisms	Status
By 2020, RDB drafts an ADB-approved environmental and social safeguards system	Letter from the general manager and copy of environmental and social safeguard framework	<i>Status:</i>
By 2021, RDB's new asset-liability committee reporting implemented	Letter from the general manager and copy of asset-liability committee minutes	<i>Status:</i>
Upgrade loan origination system, revise credit scoring system, and correspondingly revise credit origination and risk management procedures (by 29 February 2021)		<i>Status:</i>
Training of trainers is conducted for 60 RDB staff officers, of which at least 30 are women (by 2021)		<i>Total trainers trained (#):</i> <i>Percent of target (%):</i> <i>Women trained (#):</i> <i>Percent of target (%):</i>
By 2021, 90% of RDB's loan officers have passed loan underwriting course	Consultant's final report	<i>2018 benchmark (#): 481</i> <i>Total trained (#):</i> <i>Total passed (#):</i> <i>Percent of target (%):</i>
Targets relating to Output 3: Capacity of MSEs to access financial services enhanced.		
By 2020, a white paper on evaluating the effectiveness of government MSME support programs with an emphasis on women borrowers submitted to project steering committee	Consultant's final report	<i>Status:</i>
Targets relating to ADB's Results Framework.		
By 2022, 3,333 MSE subloans funded	PMU's monthly monitoring reports	<i>Status:</i>

B. Additional Requirements from Loan Covenants

Covenant	Status
The Borrower shall submit annual safeguards monitoring reports to ADB	<i>Status:</i>
The Borrower shall ensure that it is profitable as of its last annual audited financial statement	<i>Profits as of last audited financial statements (Rs):</i>
The Borrower shall ensure that it at all times complies with the Basel III liquidity coverage ratio as defined by CBSL as of its last annual audited financial statements	<i>Liquidity coverage ratio as of last audited financial statements (Rs):</i>