

# Project Administration Manual

Project Number: 53307-001  
Loan Number:  
November 2020

Kingdom of Bhutan: Rural Finance Development  
Project



## ABBREVIATIONS

	ADB	–	Asian Development Bank
	BDB	–	Bhutan Development Bank
	CSI	–	cottage and small industry
	DMEA	–	Department of Macroeconomic Affairs
	ESMS	–	environment and social management system
	GAP	–	gender action plan
	MOF	–	Ministry of Finance
	PAM	–	project administration manual
	PIU	–	project implementation unit
	PSC	–	project steering committee
	SOE	–	statement of expenditure
	TA	–	technical assistance



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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 Department of Macroeconomic Affairs (DMEA) of the Ministry of Finance as the Executing Agency and Bhutan Development Bank (BDB) as the Implementing Agency are wholly responsible for the implementation of ADB-financed projects, as agreed jointly between the borrower 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 DMEA and BDB of their obligations and responsibilities for project implementation in accordance with ADB's policies and procedures.

At loan negotiations, the borrower (the Government of Bhutan) 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, changes in implementation arrangements are subject to agreement and approval pursuant to relevant government and ADB administrative procedures (including the Project Administration Instructions and Staff Instructions) and upon such approval, they will be subsequently incorporated in the PAM.



## I. PROJECT DESCRIPTION

1. The project will expand access to finance for rural cottage and small industries (CSIs). In addition, the project will improve the institutional capacity of Bhutan Development Bank (BDB) by supporting implementation of a comprehensive institutional strengthening plan, including enhanced systems for CSI outreach. Finally, the project will enhance the capacity of rural CSIs to access financing by providing business development support and financial literacy training with gender inclusive outreach targets. The project is financed under Asian Development Bank (ADB)'s financial intermediation loan.

2. The project is aligned with the following impact: productive and gainful rural employment opportunities generated.<sup>1</sup> The project will have the following outcome: finance sector's rural financing capacity enhanced.

3. **Output 1: Collateral-based rural cottage and small industry financing expanded.** The project will finance a \$15 million credit line for BDB to expand collateral-based loans to rural CSIs. BDB will finance rural CSIs that are engaged in small-scale enterprise activities such as crop cultivation, livestock production, retail shops, and restaurants. Eligible subborrowers are rural CSIs with an investment size of less than Nu10 million. The maximum rural CSI subloan amount is Nu7.5 million. With this credit line, BDB can leverage its rural CSI financing from Nu11.5 billion and 50,501 borrowers (of which 41% were CSIs owned by women) in 2019, to Nu17.3 billion with 63,714 borrowers (of which 50% are CSIs owned by women) by 2024.

4. **Output 2: Non-collateral-based rural cottage and small industry financing expanded.** Specifically to meet the needs of marginal rural CSIs lacking sufficient physical collateral to access financing from commercial banks, the project will finance a \$5 million credit line for BDB to extend non-collateral-based group loans to rural CSIs. Group-loan subborrowers will be limited to rural CSIs engaged in micro-scale enterprises, with an investment size of less than Nu1 million, that are smaller than rural CSI financing subborrowers and have few or no tangible assets that can qualify as collateral. Group-loan subborrowers need to show their willingness to join a group and guarantee other group members' loans. The maximum group-loan amount is Nu500,000. With this credit line, BDB will reach at least 4,996 group-loan subborrowers, of which 65% are women, by 2024.

5. **Output 3: Bhutan Development Bank's institutional capacity strengthened.** To address BDB's operational and financial weaknesses, in particular its high level of nonperforming loans, the project will strengthen BDB by implementing the BDB institutional strengthening plan. The plan's objective is to bring about structural and operational changes to improve BDB's performance and outreach, especially to rural CSIs. The BDB institutional strengthening plan is focused on, but is not limited to (i) strengthening corporate governance, (ii) improving portfolio quality and resolving nonperforming loans, (iii) initiating new credit appraisal methodologies, (iv) improving management information systems, and (v) strengthening internal control and risk management. To ensure that BDB's performance improves, key institutional strengthening milestones and performance targets are included in the project administration manual (PAM). BDB will provide quarterly reports to ADB on progress in the plan's implementation, including achievement of milestones and targets, and the government will ensure that BDB implements remedial measures in case of non-achievement. The output will also support BDB's group-loan operations. This output will be supported under the attached technical assistance (TA).

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<sup>1</sup> Government of Bhutan, Gross National Happiness Commission. 2019. [Twelfth Five Year Plan, 2018–2023—Just, Harmonious and Sustainable Society through Enhanced Decentralisation](#). Thimphu.

6. **Output 4: Financial literacy training and business development support extended to rural cottage and small industries.** The rural CSI financing components under outputs 1 and 2 will be combined with financial literacy training and business development support for potential rural CSI borrowers, especially women, including financial literacy training programs and training of trainer programs for credit officers. BDB's credit officers will educate groups of rural people on financial products and services including sensitization on group loans, household financial management, and risks and rights of customers. BDB's credit officers will provide business development support to potential rural CSI borrowers and will include development of a simple template-based business plan, basic bookkeeping training, and other support. The output will be supported under the attached TA.

## II. IMPLEMENTATION PLANS

### A. Project Readiness Activities

**Table 1: Project Readiness Activities**

Indicative Activities	2020												Responsible Agency	
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec		
Financial and integrity due diligence conducted														ADB
Stakeholder analysis and consultation have been undertaken														ADB
Major risks have been identified, and mitigating measures are developed														ADB
Establish project implementation arrangements														ADB, BDB
ADB Board approval														ADB
Project management unit established at BDB														BDB
Project monitoring system established														ADB, BDB
Project environmental and social management system established														BDB
Loan and project agreement signing														ADB, MOF
Signing of the subsidiary loan agreements between DMEA and BDB														DMEA, BDB
Government's legal opinion submitted														MOF
Loan effectiveness														ADB

ADB = Asian Development Bank, BDB = Bhutan Development Bank, DMEA = Department of Macroeconomic Affairs, MOF = Ministry of Finance.

Source: ADB.

**B. Project Implementation Plan**

7. The scheduled implementation period is 4 years from January 2021 to December 2024.

**Table 2: Project Implementation Plan**

	2021				2022				2023				2024			
	Q1	Q2	Q3	Q4												
<b>A. DMF</b>																
<b>Output 1: Collateral-based rural CSI financing expanded</b>																
1.1 Rural CSI subborrower identification																
1.2 Rural CSI subloan appraisal and due diligence																
1.3 Rural CSI subloan sanctioning																
1.4 Rural CSI subloan portfolio performance monitoring																
<b>Output 2: Non-collateral based rural CSI financing expanded</b>																
2.1 Group-loan manual revised																
2.2 Group-loan operational plan developed																
2.3 Group-loan focal officers assigned																
2.4 Group-loan training for credit officers provided																
2.5 Agriculture and livestock loan training for credit officers provided																
2.6 Group-loan operational plan implemented																
2.7 Group-loan operational plan implementation monitoring and evaluation																
<b>Output 3: BDB's institutional capacity strengthened</b>																
3.1 BDB institutional strengthening plan implementation																
3.2 BDB institutional strengthening plan implementation monitoring and evaluation																
<b>Output 4: Financial literacy training and business development support extended to rural CSIs</b>																
4.1 Financial literacy training module developed																
4.2 Financial literacy training operational plan developed																
4.3 TOT on financial literacy for credit officers provided																

	2021				2022				2023				2024			
	Q1	Q2	Q3	Q4												
4.4 Financial literacy training operational plan implementation and monitoring																
4.5 Business development service process and methodology developed																
4.6 Training on business development service for credit officers provided																
4.7 Business development service operation monitoring and evaluation																
<b>B. Management Activities</b>																
B.1 Consultant recruitment																
B.2 Gender Action Plan implementation and monitoring																
B.3 Financial Management covenants implementation and monitoring																
B.4 ESMS implementation and monitoring																
B.5 Review of annual audit report of utilization of funds and entity audit report																
B.6 Project progress review and monitoring																
B.7 Midterm review																
B.8 Project completion report																

BDB = Bhutan Development Bank, CSI = cottage and small industry, DMF = design and monitoring framework, ESMS = environment and social management system.

 = continuous.

 = intermittent.

Source: Asian Development Bank.

### III. PROJECT MANAGEMENT ARRANGEMENTS

#### A. Project Implementation Organizations: Roles and Responsibilities

8. A project steering committee (PSC) will comprise:

- (i) Director General, Department of Macroeconomic Affairs (DMEA) – Chair;
- (ii) Chief Executive Officer, BDB; and
- (iii) BDB representative as the secretariat.

9. The PSC is expected to meet at least semi-annually. The PSC will monitor and supervise the overall project implementation and provide guidance on major project implementation issues. The PSC chair and members can nominate their representative.

10. Ministry of Finance (MOF), through DMEA, as the executing agency, will supervise the project implementation by receiving semi-annually project performance monitoring reports, annual audited statement of utilization of funds, and other relevant project information. It will provide guidance on project implementation matters to the project implementation unit (PIU) at BDB and liaise with ADB as and when needed. The PSC can call for meetings with the implementing agency as necessary.

11. The PIU will be established at BDB. The PIU will be headed by a PIU manager and at least a full-time staff whose qualifications are satisfactory to ADB. The PIU staff shall be full-time employees of BDB. The PIU will implement and monitor the project implementation, coordinate with the TA consultants, and report project progress to DMEA and ADB.

**Table 3: Project Implementation Organizations: Roles and Responsibilities**

<b>Project Implementation Organizations</b>	<b>Management Roles and Responsibilities</b>
<b>Executing Agency: MOF (acting through DMEA)</b>	<ul style="list-style-type: none"> <li>• Responsible for the overall project implementation and provide project implementation guidance</li> <li>• Manage and administer advance account</li> <li>• Liaise with ADB for any project implementation issues</li> <li>• Provide necessary implementation support to BDB</li> <li>• Sign the subsidiary agreement with BDB and monitor compliance</li> </ul>
<b>Project Steering Committee</b>	<ul style="list-style-type: none"> <li>• Provide overarching guidance and policy level support to the project</li> <li>• Monitor and review project performance and address key policy related issues</li> <li>• Make decisions and authorize BDB on critical project implementation actions</li> </ul>
<b>Implementing Agency: BDB</b>	<ul style="list-style-type: none"> <li>• Ensure the implementation of the BDB institutional strengthening plan and report the progress to DMEA and ADB</li> <li>• Ensure compliance with the selection criteria for subprojects, and sub-borrowers with covenants in loan agreement</li> <li>• Ensure that subprojects comply with ADB's safeguard policy requirements</li> <li>• Ensure the implementation of ESMS</li> <li>• Submit annual audited statement of utilization of funds to DMEA and ADB</li> <li>• Submit annual audited entity-level financial statements to DMEA and ADB</li> </ul>

	<ul style="list-style-type: none"> <li>• Submit semi-annual project progress report to DMEA and ADB</li> <li>• Respond to other information requests as required by DMEA and ADB</li> <li>• Manage and administer subaccount</li> <li>• Supply necessary project implementation data for the project performance monitoring system</li> <li>• Ensure compliance with loan agreement covenants</li> <li>• Ensure progress of gender action plan</li> <li>• Represent at the portfolio management review meetings organized by ADB and the government</li> <li>• Provide technical inputs and information and other necessary assistances to the TA consultants</li> <li>• Prepare a project completion report</li> </ul>
<b>ADB</b>	<ul style="list-style-type: none"> <li>• Conduct field review missions, midterm review mission, and project completion review mission to assess project implementation progress and compliance of loan agreement</li> <li>• Review PIUs' submissions for semi-annual project progress reports, annual audit report, and annual safeguards monitoring report</li> <li>• Check statement of expenditure and disburse or liquidate the loan funds as agreed in the Loan Agreement</li> </ul>

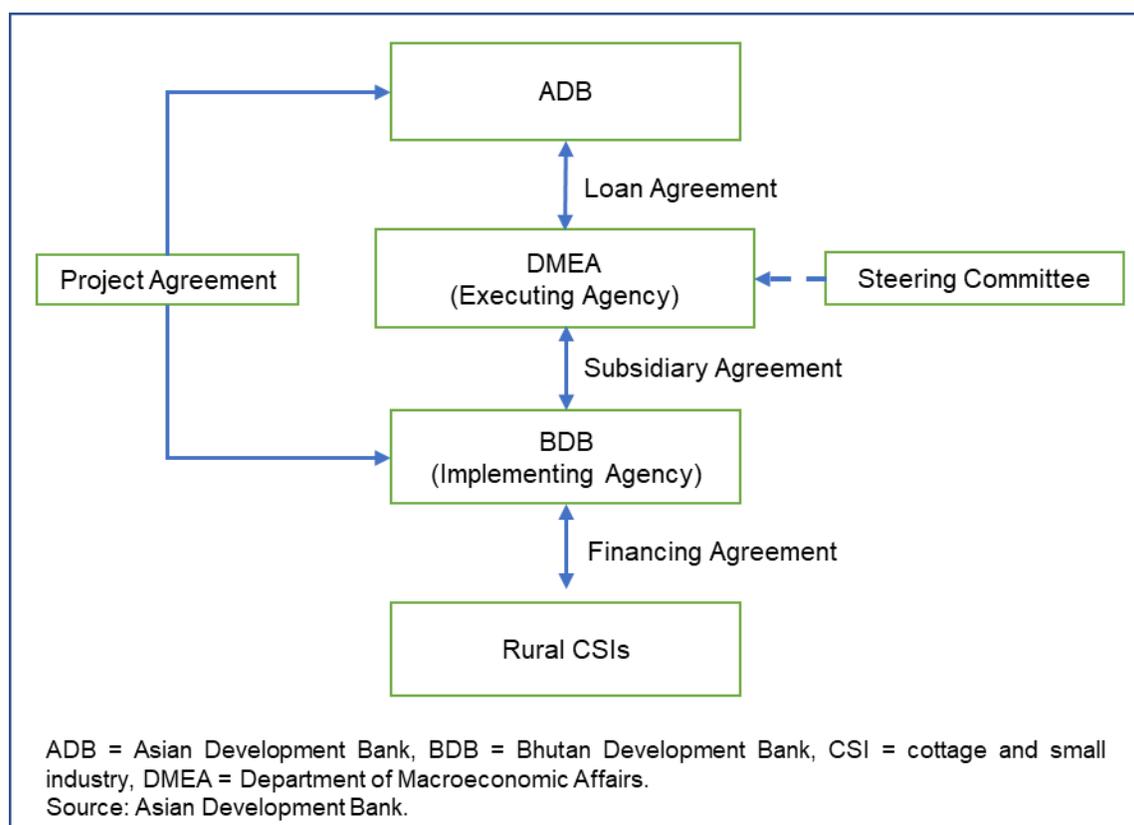
ADB = Asian Development Bank, BDB = Bhutan Development Bank, DMEA = Department of Macroeconomic Affairs, ESMS = Environmental and Social Management System, MOF = Ministry of Finance, TA = technical assistance, PIU = project implementation unit.

Source: ADB.

## B. Key Persons Involved in Implementation

<b>Executing Agency</b>	
Department of Macroeconomic Affairs, Ministry of Finance	Mr. Lekzang Dorji Director General E-mail: <a href="mailto:lekzangd@mof.gov.bt">lekzangd@mof.gov.bt</a>
<b>Implementing Agency</b>	
Bhutan Development Bank	Mr. Phub Dorji Chief Executive Officer E-mail: <a href="mailto:phubdorji@bdb.bt">phubdorji@bdb.bt</a>
<b>Asian Development Bank</b>	
Public Management, Financial Sector, and Trade Division (SAPF) South Asia Department	Officer-in-Charge Director E-mail:
Mission Leader	Ms. Mayumi Ozaki Senior Portfolio Management Specialist E-mail: <a href="mailto:mozaki@adb.org">mozaki@adb.org</a>

### C. Project Organization Structure



## IV. COSTS AND FINANCING

### A. Project Investment and Financing Plan

12. The project is estimated to cost \$20 million. The government has requested a concessional loan of \$20 million from ADB's ordinary capital resources to help finance the project. The loan will have a 32-year term, including a grace period of 8 years; an interest rate of 1.0% per year during the grace period and 1.5% per year thereafter; and such other terms and conditions set forth in the loan agreement between the government and ADB. The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

**Table 4: Summary Financing Plan**

Source	Amount (\$ million)	Share of Total (%)
Asian Development Bank		
Ordinary capital resources (Concessional loan)	20.0	100.0
<b>Total</b>	<b>20.0</b>	<b>100.0</b>

Source: Asian Development Bank.

### B. Cost Estimates Preparation

13. The cost estimates were prepared by BDB in consultation with ADB.

### C. Detailed Cost Estimates by Expenditure Category

**Table 5: Cost Estimates by Expenditure Category**

Items	Total Cost (\$ million)	Share of Total (%)
Credit line – rural CSI financing <sup>a</sup>	15.0	75.0
Credit line – group loan <sup>a</sup>	5.0	25.0
<b>Total Project Cost</b>	<b>20.0</b>	<b>100.0</b>

CSI = cottage and small industry.

<sup>a</sup> The sub-borrowers are expected to contribute at least 25% of the total rural CSI subproject investments from their own sources including in-kind or labor contributions.

Source: Asian Development Bank.

### D. Allocation and Withdrawal of Loan Proceeds

14. The allocation and withdrawal of ADB loan proceeds are in Table 6.

**Table 6: Allocation and Withdrawal of ADB Loan Proceeds**

Number	Item	Total Amount Allocated for ADB Financing (\$ million)	Percentage and Basis for Withdrawal from the ADB Loan Account
1	Credit line – rural CSI financing	15.0	100% of total expenditures claimed
2	Credit line – group loan	5.0	100% of total expenditures claimed
	<b>Total</b>	<b>20.0</b>	

ADB = Asian Development Bank, CSI = cottage and small industry.

Source: ADB.

15. **Relending.** The government will relend the loan proceeds to BDB pursuant to a subsidiary loan agreement. The government expects to structure the subsidiary loan as follows: (i) \$15 million of the subsidiary loan as a subordinated debt; and (ii) \$5 million as an unsubordinated debt. Tentatively, the subsidiary loan of \$15 million subordinated debt will have a 10-year term with no grace period, interest rate of 5.0% per year; and such other terms and conditions to be set forth in the subsidiary loan agreement between the government and BDB; and the subsidiary loan of \$5 million unsubordinated debt will have a 10-year term with no grace period, an interest rate of 4.0% per year, and such other terms and conditions to be set forth in the subsidiary agreement between the government and BDB. The final subsidiary loan terms and conditions for relending will be determined in the subsidiary loan agreement between the government and BDB. BDB will use the subsidiary loan proceeds to sub-lend to eligible rural CSIs under the two credit lines: (i) collateral-based rural CSI financing, and (ii) non-collateral-based group loans – established under outputs 1 and 2 of the project.

16. **Sublending.** BDB will sublend the subsidiary loan proceeds from the government to rural CSI subborrowers based on each credit line's eligibility criteria and terms and conditions:

- (i) **Collateral-based rural CSI financing.** An eligible rural CSI subborrower (a) is an enterprise with an investment size of less than Nu10 million; (b) is composed of individuals who are no younger than 18 years old; (c) is borrowing subloans against which fixed or financial assets are pledged, based on collateral requirements established by BDB using a credit appraisal methodology acceptable to ADB; (d) neither it nor its membership have a record of nonperforming loans with BDB or other financial institutions; and (e) has demonstrated experience relevant to its proposed subproject. Rural CSI subloan interest rates and maturity vary depending on types of activities and underlying risks of rural CSI subprojects. However, subloan interest rates

- should be adequate to cover all costs and risks associated with subprojects and ensure an adequate margin.
- (ii) **Non-collateral-based group loans.** An eligible group-loan subborrower (a) is an enterprise with an investment size of less than Nu1 million; (b) has demonstrated that it cannot offer fixed or financial assets against which to borrow subloans; (c) is composed of individuals who are no younger than 18 years old; (d) has completed all necessary preparatory work prior to applying for a subloan, including requirements established by BDB for demonstrating collective membership; and (e) has demonstrated that its membership has participated in group sensitization and training activities regarding the obligations of the qualified enterprise and its individual members. The indicative sublending terms and conditions are an interest rate of 10% per annum, with a maturity of up to 5 years for group term loans, and up to 1 year for group seasonal loans.

17. **Revolving fund (at BDB).** The sub-loans repaid by sub-borrowers will be maintained at a separate rural CSI financing account and group-loan fund account established at BDB. BDB will sub-lend to eligible sub-borrowers with the project's same onlending terms and conditions. The same sub-borrower eligibility criteria for the rural CSI financing and group loans will be applied.

18. The provisional terms and conditions for sub-loans are summarized in Table 7.

**Table 7: Summary of Provisional Sublending Terms and Conditions**

<b>Sublending: Rural CSI Financing</b>	
Loan term	Vary depending on sub-projects
Grace period	Vary depending on sub-projects
Loan repayment	Monthly, quarterly, half yearly or yearly as per the subproject cash flow timing
Interest rate	Vary depending on subprojects
Maximum Loan size	Nu7.5 million
<b>Sublending: Group Loans (Seasonal Loans)</b>	
Loan term	Up to 1 year
Grace period	None
Loan payment	Monthly, quarterly, half yearly or yearly as per the subproject cash flow timing
Interest rate	10% per annum
Maximum Loan size	Nu500,000
<b>Sublending: Group Loans (Term Loans)</b>	
Loan term	Up to 5 years
Grace period	Up to 1 year
Loan payment	Monthly, quarterly, half yearly or yearly as per the subproject cash flow timing
Interest rate	10% per annum
Maximum Loan size	Nu500,000

CSI = cottage and small industry.

Source: Bhutan Development Bank.

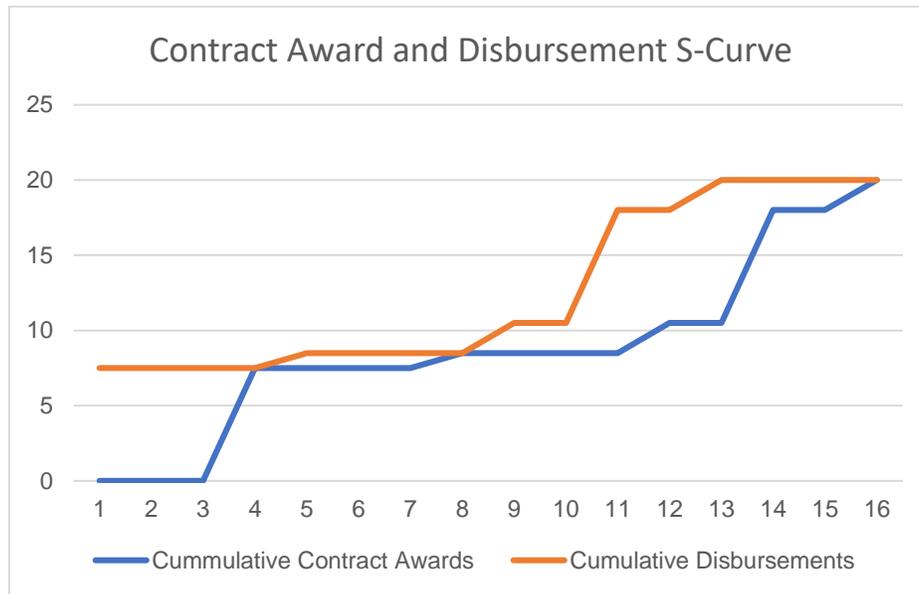
## E. Contract and Disbursement S-Curve

19. The disbursement schedule is \$20 million for January 2021 – December 2024.

**Table 8: Contract Awards and Disbursement Projections**  
(\$ million)

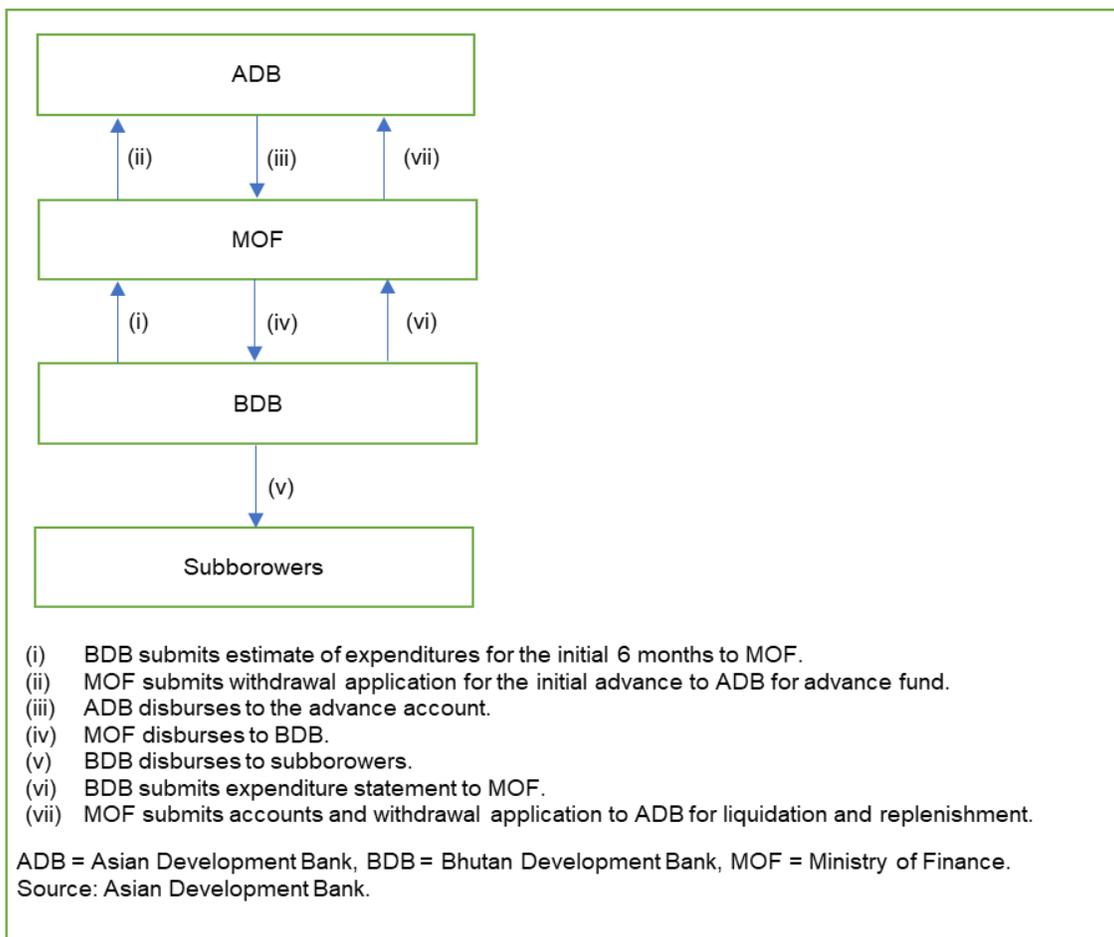
	2021				2022				2023				2024			
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4
<b>Cumulative Contract Awards</b>	0	0	0	7.5	7.5	7.5	7.5	8.5	8.5	8.5	8.5	10.5	10.5	18	18	20
<b>Cumulative Disbursements</b>	7.5	7.5	7.5	7.5	8.5	8.5	8.5	8.5	10.5	10.5	18	18	20	20	20	20

Source: Asian Development Bank.



Source: Asian Development Bank.

## F. Fund Flow Diagram



## IV. FINANCIAL MANAGEMENT

### A. Financial Management Assessment

20. The financial management assessment was conducted for DMEA and BDB in accordance with ADB's Guidelines for the Financial Management and Analysis of Projects, Financial Management Assessment, and the Financial Due Diligence: A Methodology Note.<sup>2</sup> The financial management assessment considered the capacity of BDB, including funds-flow arrangements, staffing, accounting and financial reporting systems, financial information systems, and internal and external auditing arrangements.

21. The overall financial management risk for the project is assessed as high. MOF, as an executing agency, has prior experience administering donor-funded projects including ADB projects. BDB, an implementing agency, has experience in implementing donor-funded projects including ADB projects. However, some weaknesses are identified in BDB's financial management including (i) inadequate financial management practices and lack of accounting policy and financial management guidelines, (ii) weak internal controls system, (iii) poor portfolio management with high nonperforming loans, and (iv) limited institutional expertise to undertake rural CSI financing. Appropriate risk mitigation measures are proposed in Table 9 and further detailed in Risk Assessment and Risk Management Plan.<sup>3</sup>

**Table 9: Key Risk Assessment and Action Plan**

Risk Description	Rating	Mitigation Measures	Responsibility	Proposed Time
<b>Institutional Financial Management.</b> BDB's financial management practices are inadequate in the absence of an accounting policy or manual or guidelines on financial management practices.	H	Financial due diligence and financial management assessment of BDB have been completed.  Accounting manuals in compliance with BAS, BFRS, and IFRS, and financial management policy and manual in compliance with relevant institutional by-laws and regulations will be prepared by ADB under the attached TA support. ADB will regularly obtain fund utilization statements from BDB.  Under the attached TA, capacity development will be conducted for BDB staff on financial management, including ADB's financial management requirements and procedures.	ADB, BDB	By December 2020  By December 2021  From June 2021 – December 2024
BDB has limited institutional expertise to undertake rural CSI financing, including	H	BDB will revise its credit and group-loan manuals and develop a business plan and group-loan operational plan with operational and financial targets.	ADB, BDB	By December 2021

<sup>2</sup> ADB. 2005. *Financial Management and Analysis of Projects*. Manila. <https://www.adb.org/sites/default/files/institutional-document/31339/financial-governance-management.pdf>; ADB. 2015. *Financial Management Technical Guidance Note: Financial Management Assessment*. Manila. <https://www.adb.org/sites/default/files/page/82468/financial-management-assessment.pdf>; and ADB. 2009. *Financial Due Diligence: A Methodology Note*. Manila. <https://www.adb.org/sites/default/files/institutional-document/33540/files/financial-due-diligence.pdf>.

<sup>3</sup> Risk Assessment and Risk Management Plan (accessible from list of linked documents in Appendix 2).

Risk Description	Rating	Mitigation Measures	Responsibility	Proposed Time
(i) poor credit appraisal processes, and (ii) limited skills of credit staff to undertake credit appraisal and risk management of rural projects or enterprise financing		<p>Training on agriculture and livestock finance and on the group-loan manual and operational plan will be provided to BDB credit officers under the attached TA. BDB will introduce comprehensive mandatory training for new staff and credit officers. Training for higher management, including executive board members, will be provided under the attached TA. New credit manuals that incorporate the improved credit underwriting process will be developed under the attached TA.</p> <p>BDB evaluates annually, by the end of each year, the implementation of the BDB business plan with analysis of achievements, unmet targets, and ensures to implement corrective measures.</p>		<p>From June 2021 – December 2024</p> <p>From June 2021 – December 2024</p>
BDB's internal financial and operational control is weak. External auditor has consistently raised issues related to internal control in BDB's annual report.	H	<p>BDB will place a compliance focal for internal control rules and procedures at all branches. Comprehensive internal control and compliance framework will be developed and implemented under the attached TA.</p> <p>BDB has one compliance focal who is primarily responsible for reporting to the RMA. BDB's compliance unit will be strengthened, and the compliance focal will be actively engaged in implementing internal controls and the compliance framework.</p> <p>At the branch level, a designated compliance focal will check transactions every day at close-of-business as per the internal control and compliance framework.</p> <p>A new field banking modality will be developed by BDB with "tablet banking or POS banking with digital receipts" to eliminate misappropriations, overwriting of field receipts, backdating errors in field receipts, and failure of updating account records of fund collected by field officers in various branches.</p> <p>Risk-based audit approach will be implemented and information system audit will be conducted by BDB at a regular interval.</p>	ADB, BDB	<p>By June 2021</p> <p>By June 2021</p> <p>From January 2021 – December 2024</p> <p>By June 2021</p> <p>From June 2021 – December 2024</p>

Risk Description	Rating	Mitigation Measures	Responsibility	Proposed Time
Poor portfolio management resulting in high NPL ratio	H	Under the BDB institutional strengthening plan, measures will be taken to better manage portfolio and reduce NPLs, including revising the credit manual, initiating a risk-based scoring system, and initiating interest-rate-setting methodologies for different loan products, reducing the number of loans per credit officer, and introducing mandatory credit training programs for junior and senior officers.	ADB, BDB	From June 2021 – December 2024
BDB's AML policy was approved in October 2019. However, BDB has yet to submit suspicious transaction reporting. RMA inspection found weaknesses in BDB's AML/CFT policy and its implementation, especially inadequate risk assessment conducted on their customers due to lack of (i) risk-based customer due diligence; (ii) information on politically exposed persons; (iii) management information system, which would enable BDB to detect irregularities or any suspicious activity in a timely manner; and (iv) transaction reporting mechanism, including suspicious transaction reporting, and insufficient awareness, training, and record keeping. ADB's financial and integrity due diligence on BDB identified cases of misappropriation, fraud, embezzlement, unauthorized sanctions and disbursements, overwriting of field receipts, backdating errors in field receipts, failure of updating account records of funds collected by branches.	H	Throughout the project implementation period, BDB's implementation of AML policy will be monitored, especially to ensure conducting of risk-based customer due diligence, proper application of core banking systems for risk assessment, and proper risk reporting including suspicious transaction reporting. The attached TA will support BDB staff capacity development and provide training on AML/CFT. ADB supported the development and launch of BFIAS, which is an AML reporting system that allows covered institutions to analyze and submit online cash and suspicious-transaction reports to the RMA's Financial Intelligence Department.	ADB, BDB	Throughout the implementation period
<b>Overall risk</b>	<b>High</b>			

ADB = Asian Development Bank, AML = anti-money laundering, BAS = Bhutan Accounting Standard, BDB = Bhutan Development Bank, BFIAS, Bhutan Financial Analysis Intelligence System, BFRS = Bhutan Financial Reporting Standard, CFT = combating financing of terrorism, CSI = cottage and small industry, IFRS = International Financial Reporting Standard, NPL = nonperforming loan, POS = point-of-sale, RMA = Royal Monetary Authority, STR = suspicious transaction report, TA = technical assistance.

Source: ADB.

## B. Disbursement

22. **Disbursement arrangements for ADB fund.** The loan proceeds will be disbursed in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time), and detailed arrangements agreed upon between the government and ADB. Online training for project staff on disbursement policies and procedures is available.<sup>4</sup> An advance fund procedure for disbursement with the estimates of ADB's share of expenditures for the forthcoming six months, and statement of expenditure (SOE) procedure for liquidation and replenishment will be used. Project staff are encouraged to avail of this training to help ensure efficient disbursement and fiduciary control.

23. BDB will be responsible for preparing disbursement projections based on subloan demands, collecting and retaining supporting documents and preparing withdrawal applications. MOF (DMEA) will be responsible for sending withdrawal application with supporting documents to ADB following ADB procedures. MOF (DMEA) will be the authorized signatory of withdrawal applications.

24. **Advance fund procedure.** MOF (DMEA) has the experience in administering the advance fund procedures with the terms proposed for the project and the SOE procedures under ADB-funded project.<sup>5</sup> Separate advance account should be established and maintained by the authorized representatives of MOF (DMEA). The currency of the advance account is in USD. The advance account is to be used exclusively for ADB's share of eligible expenditures. The authorized representatives of MOF (DMEA) who will administer the advance account are accountable and responsible for the proper use of advances. Two separate subaccounts shall be established for (i) rural CSI financing, and (ii) group loan, in local currency and maintained by BDB. The subaccounts are to be used exclusively for ADB's share of eligible expenditures. BDB will establish the subaccounts in its name and will be accountable and responsible for the proper use of advances to the subaccounts.

25. The total outstanding advance to the advance account should not exceed the estimate of ADB's share of expenditures to be paid through the advance account for the forthcoming 6 months. MOF (DMEA) will request for initial and additional advances to the advance account based on an Estimate of Expenditure Sheet setting out the estimated expenditures to be financed through the account for the forthcoming 6 months.<sup>6</sup> Supporting documents should be submitted to ADB or retained by MOF (DMEA) in accordance with ADB's *Loan Disbursement Handbook* (2017, as amended from time to time) when liquidating or replenishing the advance account.

26. **Statement of expenditure procedure.** The SOE procedure is used for reimbursement of

<sup>4</sup> Disbursement eLearning. [http://wpqr4.adb.org/disbursement\\_elearning](http://wpqr4.adb.org/disbursement_elearning).

<sup>5</sup> ADB. 2018. *Report and Recommendation of the President to the Board of Directors: Proposed Loan to Bhutan for the Phuentsholing Township Development Project*. Manila.

<sup>6</sup> Estimate of Expenditure sheet is available in Appendix 8A of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

eligible expenditures or liquidation and replenishment of advances to the advance account.<sup>7</sup> The ceiling of SOE procedure is the equivalent of Nu10 million (about \$135,000) per subloan. BDB shall maintain supporting documents and records for the expenditures claimed under the SOE and make readily available for review by ADB's disbursement and review missions, upon ADB's request for submission of supporting documents on a sampling basis, and for independent audit.

27. Before the submission of the first withdrawal application, MOF (DMEA) on behalf of the borrower should submit to ADB sufficient evidence of the authority of the persons who will sign the withdrawal applications on behalf of the government, 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 (i) BDB and subsequently claimed to ADB through reimbursement, or (ii) through the advance fund procedure, unless otherwise accepted by ADB. Use of ADB's Client Portal for Disbursements system is encouraged for submission of withdrawal applications to ADB.<sup>8</sup>

### **C. Accounting**

28. BDB will maintain separate books and accounts related to the subloans of rural CSIs funded by the project. BDB will prepare statement of the utilization of funds in accordance with Bhutan Accounting Standards which are consistent with international accounting principles and practices.

29. The template of BDB's statement of utilization of funds are in Appendix 2.

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

30. BDB will cause its statement of utilization of funds to be audited in accordance with Bhutan Standards on Auditing which are consistent with international auditing principles by an independent auditor appointed by the Royal Audit Authority and acceptable to ADB.<sup>9</sup> The requirements for this audit are included in Appendix 3. The audit report will include a management letter setting out any deficiencies identified in the internal control of the project including BDB's performance, and audit opinions, which cover (i) whether the statement of utilization present an accurate and fair view or are presented fairly, in all material respects, in accordance with applicable financial reporting standards; (ii) whether the proceeds of the loan were used only for the purpose of the project; and (iii) whether BDB was in compliance with the financial covenants contained in the legal agreements (where applicable). The audited statement of utilization of funds together with the audit report and management letter will be submitted in English to ADB within 6 months after the end of the fiscal year to which they relate.

31. The audited entity-level financial statements of BDB together with the auditor's report and management letter, will be submitted in English ADB within 1 month after their approval by the competent authority.

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<sup>7</sup> SOE forms are available in Appendix 7D of ADB's *Loan Disbursement Handbook* (2017, as amended from time to time).

<sup>8</sup> The Client Portal for Disbursements facilitates online submission of withdrawal application to ADB, resulting in faster disbursement. The forms to be completed by the Borrower are available online at <https://www.adb.org/documents/client-portal-disbursements-guide>.

<sup>9</sup> Appointment of the auditor will not require prior approval of ADB.

32. Compliance with financial reporting and auditing requirements will be monitored by review missions and during normal project supervision, and regular follow up with all concerned, including the external auditor.

33. The government and BDB have been made aware of ADB's approach to delayed submission, and the requirements for satisfactory and acceptable quality of the statements of utilization of funds.<sup>10</sup> 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.

34. Public disclosure of the statements of utilization of funds, including the auditor's opinion on the project financial statements, will be guided by ADB's Access to Information Policy 2018.<sup>11</sup> After the review, ADB will disclose the audited statements of utilization of funds and the opinion of the auditors on the statements of utilization of funds no later than 14 days of ADB's confirmation of their acceptability by posting them on ADB's website. The management letter, additional auditor's opinions, and audited entity financial statements will not be disclosed.<sup>12</sup>

## VI. PROCUREMENT AND CONSULTING SERVICES

### A. Advance Contracting and Retroactive Financing

35. All advance contracting and retroactive financing will be undertaken in conformity with ADB's Procurement Policy (2017, as amended from time to time), Procurement Regulations for ADB Borrowers (2017, as amended from time to time), and relevant staff instructions. The issuance of invitations to bid under advance contracting and retroactive financing will be subject to ADB approval. The borrower, executing and implementing agencies have been advised that approval of advance contracting and retroactive financing does not commit ADB to finance the project. No advance contracting is envisaged under the project.

36. **Retroactive financing.** Withdrawals from the loan account may be made for reimbursement of eligible expenditures incurred under the project before effective date, but not earlier than 12 months before the date of the loan and grant agreements, subject to a maximum amount equivalent to 20% of the loan amount.

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<sup>10</sup> ADB's approach and procedures regarding delayed submission of the statement of utilization of funds:

- (i) When statements of utilization of funds 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 six 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 statements of utilization of funds are not received within six 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 six months.
- (iii) When statements of utilization of funds are not received within 12 months after the due date, ADB may suspend the loan.

<sup>11</sup> Public Communications Policy: <http://www.adb.org/documents/pcp-2011?ref=site/disclosure/publications>.

<sup>12</sup> This type of information would generally fall under public communications policy exceptions to disclosure. ADB. 2018. *Access to Information Policy*. Manila.

## B. Procurement of Goods, Works, and Consulting Services

37. Procurement of goods, works and non-consultancy services shall be governed by the principles and procedures laid down in ADB's Procurement Policy (2017, as amended from time to time), Procurement Regulations for ADB Borrowers (2017, as amended from time to time), and relevant staff instructions. Procurement to be undertaken by any individual beneficiary, to ensure fitness for purpose. This can be achieved through use of established private sector and commercial practices acceptable to ADB.

## C. Procurement Plan

38. No procurement is envisaged under the project.

## VII. SAFEGUARDS

39. In accordance with ADB's Safeguard Policy Statement (2009) and relevant Operations Manual definitions, the project's safeguard categories are as follows:<sup>13</sup>

40. **Environment (category FI), Involuntary Resettlement (category FI-C), Indigenous Peoples (category FI-C).** BDB will not finance subprojects with significant environmental impacts (category A), involuntary resettlement impacts (category A and B), and indigenous peoples impacts (category A and B). For subprojects with environmental impacts that are not significant (category B), BDB will prepare an initial environmental examination and environmental management plan and submit the appropriate plan for ADB's approval, before the subproject is financed.

41. Although BDB has adopted the environment and social safeguard policy and established the environmental and social safeguard unit in June 2020, BDB did not have a system to (i) screen projects based on environmental or social safeguards, (ii) monitor project compliance in case of such impacts, or (iii) advise its clients on the environmental or social risks associated with project financing.<sup>14</sup> BDB has developed an Environmental and Social Management System (ESMS), which was agreed by ADB. BDB's environmental and social safeguard unit will monitor and report on the status of the ESMS implementation status to ADB. The attached TA will develop BDB's capacity in implementing ESMS. BDB will facilitate:

- (i) BDB's branches will screen all subprojects to be financed to ensure compliance with government regulations, project legal agreements, the PAM, and environmental and social screening guidelines, ADB's Prohibited Investment Activities List; and
- (ii) exclude all subprojects with *category A* impacts on the environment, and *category A and B* impacts on the involuntary resettlement, and indigenous people.

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

<sup>13</sup> ADB. Safeguard Categories. <https://www.adb.org/site/safeguards/safeguard-categories>.

<sup>14</sup> Bhutan Development Bank. 2020. *Environmental and Social Safeguard Policy*. Thimphu.

## VIII. GENDER AND SOCIAL DIMENSIONS

43. 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 as gender equity. The project addresses women's empowerment by narrowing gender disparities through access to financial resources and opportunities. Furthermore, the attached TA will build women entrepreneurs' capacity by extending financial literacy training and business development support.

44. A Gender Action Plan (GAP) has been developed. Its implementation will be monitored regularly and ADB will receive an update on the GAP implementation semi-annually.<sup>15</sup> A gender action plan implementation template can be found in Appendix 5. The implementation of GAP activities will be under the attached TA which is being financed on a grant basis by the Technical Assistance Special Fund (TASF-6) and Financial Sector Development Partnership Special Fund.<sup>16</sup> Each TA technical expert (consultant) is responsible for implementing the GAP in the expert's respective area. BDB will assign a staff to monitor the GAP implementation. In addition, a national gender specialist will be mobilized under the attached TA to monitor the progress of GAP and ensure the target achievements.

## IX. PERFORMANCE MONITORING, EVALUATION, REPORTING, AND COMMUNICATION

### A. Project Design and Monitoring Framework

45. Please refer to the design and monitoring framework in Appendix 1 of the report and recommendation of the President.

### B. Monitoring and Reporting

46. **Project performance monitoring.** BDB will establish a project performance monitoring system satisfactory to ADB. BDB will submit a semi-annual project performance monitoring report to ADB for the duration of the project. The project performance monitoring system will monitor and evaluate the project information and data to ensure that planned interventions achieve the desired result under each project component, including key impact and outcome indicators and associated assumptions with corresponding target dates. The template of BDB's semi-annual project performance monitoring report is in Appendix 4. BDB's semi-annual project performance monitoring report shall include an update on GAP.

47. **Compliance monitoring.** BDB's compliance with the covenants will be monitored with the semi-annual project performance monitoring reports, audited financial statements, and audited statement of utilization of funds, and will be reviewed by ADB on a semi-annual basis. ADB will conduct periodic review missions, review semi-annual performance progress reports by BDB, conduct random spot checks on sub-loan documents, and conduct SOE review.

48. **Project completion report.** Within 3 months of the project's completion, BDB, through DMEA will furnish ADB a project completion report containing a detailed evaluation of project design, costs, social and economic impacts, and other details as may be requested by ADB.

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<sup>15</sup> Gender Action Plan (accessible from the list of linked documents in Appendix 2 of the report and recommendation of the President).

<sup>16</sup> Established by ADB. Financing partner: the Government of Luxembourg.

**Table 10: Summary of Reporting Requirements**

Type of Report	From	To	Frequency	Template
1. Project Performance Monitoring Report and Gender Action Plan Implementation Report	BDB	DMEA, ADB	Semi-annual	Appendixes 4 and 5
2. Project Completion Report	BDB	DMEA, ADB	With 3 months after the project completion	Project completion report format is available upon request.

ADB = Asian Development Bank, BDB = Bhutan Development Bank, DMEA = Department of Macroeconomic Affairs.  
Source: Asian Development Bank.

### C. Evaluation

49. To ensure responsive and timely implementation, there will be review missions at least semi-annually. There shall be regular interaction between DMEA, BDB, and ADB. In addition, a comprehensive midterm review will be undertaken by DMEA, BDB, and ADB about 24 months after the project's effectiveness that will (i) evaluate the scope, design, and implementation arrangements; (ii) assess implementation performance against project indicators; (iii) review and establish compliance with loan covenants; and (iv) identify problems and constraints and, if necessary, recommend changes in the design or implementation arrangements.

50. Within 3 months after the loan closing date, BDB through DMEA 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. Stakeholder Communication Strategy

51. ADB will disseminate information about this project and its outcome through publications, presentations, and on its website. ADB will also communicate with the project's internal stakeholders through written documents.

52. The key communication strategies are:

- (i) to inform potential and existing target sub-borrowers, especially women, about the opportunities of the project including capacity building activities and increased access to credit resources;
- (ii) to empower potential target sub-borrowers and encourage them to enter into business ventures;
- (iii) to strengthen sub-borrower networks and create a learning environment through sharing of experiences;
- (iv) to provide public accountability; and
- (v) to create public support for the project.

## X. ANTICORRUPTION POLICY

53. ADB reserves the right to investigate, directly or through its agents, any violations of the Anticorruption Policy relating to the project.<sup>17</sup> 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

<sup>17</sup> Anticorruption Policy: <https://www.adb.org/documents/anticorruption-policy>.

ADB-financed activity and may not be awarded any contracts under the project.<sup>18</sup>

54. To support these efforts, relevant provisions are included in the loan agreement of the project.

55. ADB's Office of Anticorruption and Integrity is the point of contact to report allegations of fraud and corruption among ADB-financed projects or its staff. Anyone coming across evidence of corruption associated with the project may contact below by telephone, facsimile, e-mail, or by mail:

Office of Anticorruption and Integrity  
 Asian Development Bank  
 6 ADB Avenue, Mandaluyong City  
 1550 Metro Manila, Philippines  
 Telephone: +63 2 632 5004  
 Fax: +63 2 636 2152  
 E-mail: [integrity@adb.org](mailto:integrity@adb.org) or [anticorruption@adb.org](mailto:anticorruption@adb.org)

## XI. ACCOUNTABILITY MECHANISM

56. 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.<sup>19</sup>

## XII. RECORD OF CHANGES TO THE PROJECT ADMINISTRATION MANUAL

57. 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, including revision to contract awards and disbursement s-curves.

	<b>Date</b>
<b>PAM Approved by ADB</b>	
<b>First Revision</b>	
<b>Second Revision</b>	

<sup>18</sup> ADB's Integrity Office web site: <https://www.adb.org/site/integrity/main>.

<sup>19</sup> Accountability Mechanism. <https://www.adb.org/site/accountability-mechanism/main>.

## BHUTAN DEVELOPMENT BANK INSTITUTIONAL STRENGTHENING PLAN KEY MILESTONES AND PERFORMANCE TARGETS

BDB is requested to submit quarterly report on the progress of the institutional strengthening milestones and performance targets. ADB will extend assistance to BDB to prepare such report with consultants recruited by ADB. The first such report is expected by end December 2020.

Milestones	Timeline
1. BDB forms a board sub-committee to monitor and supervise the BDB Institutional Strengthening Plan implementation, and assigns focal staff at departments to a unit, which directly reports to the CEO, to implement the BDB Institutional Strengthening Plan and monitor progress achieved	By December 2020
2. BDB evaluates annually, by the end of each year from 2021 to 2024, progress in implementing the BDB Institutional Strengthening Plan, including progress against performance targets	2021-2024
<b>a. Strategic Planning</b>	
3. BDB conducts a BDB 2015–2019 business plan evaluation with the analysis of achievements, and unmet targets	By December 2020
4. BDB develops a 2021–2024 business plan with operational targets and financial projections	By December 2021
5. BDB conducts, annually by the end of each year from 2021 to 2024, a business plan evaluation, including analysis of achievement, unmet targets and corrective measures	2021-2024
<b>b. Corporate Governance</b>	
6. BDB adopts TOR of a deputy CEO responsible for the credit operation	By December 2020
7. BDB's Board approves appointment of a deputy CEO with the qualification and experience in banking and finance	By December 2021
8. MOF recommends at least two individuals to serve on BDB's Board, in accordance with the Corporate Governance Rules and Regulations of RMA and with professional background in banking and finance	By December 2021
9. BDB facilitates an independent compliance review on RMA's Corporate Governance Rules and Regulations of 2018	By December 2021
10. BDB conducts training on bank and financial management and rural finance to the members of BDB's Board	By December 2021
<b>c. Human Resources and Training</b>	
11. BDB develops a staff redeployment and recruitment plan to attain number of active accounts per credit officer not more than 270 across branches	By December 2021
12. BDB evaluates annually, by the end of each year from 2021 to 2024, the implementation of the staff redeployment and recruitment plan	2021-2024
<b>d. Information Technology</b>	
13. BDB reviews CBS system data, reconcile discrepancies, and fills the bank data fields	By June 2021
14. BDB conducts annual IT audit	By December 2021

Milestones	Timeline
<b>e. Internal Audit and Fraud Control</b>	
15. BDB places a compliance focal person at each branch	By December 2021
16. BDB develops a comprehensive internal control and compliance framework	By December 2021
<b>f. Risk Management</b>	
17. BDB risk management division adopts the new reporting template including branch analysis, asset liability maturity mismatch and scenario analysis	By December 2021
<b>g. Loan Products</b>	
18. BDB conducts a loan product review exercise and rationalizes its number of loan products so as to align with BDB's corporate vision and mission	By December 2021
<b>h. CSI Outreach</b>	
19. BDB creates a dedicated unit to promote gender inclusive group-based loans	By December 2021
20. BDB revises group-loan manuals	By December 2021
21. BDB develops a group-loan operational plan with outreach and financial targets as well as social mobilization and financial literacy targets	By December 2021
22. BDB introduces POS or tablet banking at category A and B branches <sup>a</sup>	By December 2021
<b>i. Portfolio Quality</b>	
23. BDB creates a dedicated unit on NPL resolution	By December 2020
24. BDB adopts new credit appraisal templates which are tailored for different types of products and sectors as well as based on risk and cash flow	By December 2020
25. BDB adopts a comprehensive NPL resolution framework	By December 2020
26. BDB revises its credit manual and initiates a risk-based scoring system and interest rate setting methodologies for different loan products	By December 2021

BDB = Bhutan Bank Development, CBS = core banking system, CEO = chief executive officer, IT = information technology, MOF = Ministry of Finance, NPL = nonperforming loan, POS = point-of-sale, RMA = Royal Monetary Authority, TOR = terms of reference.

<sup>a</sup> Category A and B branches are defined based on BDB's branch categorization parameters, and largely defined as category A branches are branches with credit accounts of more than 6,000 and credit portfolio of more than Nu700 million; category B branches are branches with credit accounts of more than 3,000 and credit portfolio of more than Nu600 million, but below category A branches.

Source: Asian Development Bank.

### Bhutan Development Bank Institutional Strengthening Plan Performance Targets

For each year from 2021 to 2024, BDB are expected to meet at least 50% of the following performance benchmark targets, including (a) capital adequacy ratio, (b) nonperforming loan ratio, and (c) operational self-sufficiency

Indicators	2021	2022	2023	2024
Capital adequacy ratio (%)	10.61	10.88	12.87	12.72
NPL ratio (%)	25	22	20	19
NPL ratio loans disbursed after 1/1/2021	8.00	6.50	6.50	6.50
ROAA (%)	0.54	0.67	1.03	1.10
ROAE (%)	7.00	8.55	12.75	12.93
Operational self-sufficiency (%)	110.23	112.65	121.05	122.72
Gross outstanding loan (Nu million)	20,741	21,889	23,208	24,722
Gross loan growth (%)	5.02	5.54	6.03	6.52
Total deposit (Nu million)	24,082	25,647	27,443	29,501
Active loan accounts	57,613	62,540	66,310	70,634
Active women loan accounts	25,926	31,270	33,155	35,317
Gross CSI loan outstanding (Nu million) <sup>a</sup>	13,481.48	14,665.52	16,013.78	17,305.29
Active CSI loan accounts <sup>a</sup>	54,238	57,283	60,728	63,714
Active CSI women loan accounts <sup>a</sup>	24,407	28,642	30,364	31,857
Group-loan cumulative disbursement (Nu million)	479.40	584.87	719.39	899.23
Active group-loan accounts	3,196	3,655	4,232	4,996
Active women group-loan accounts	1,982	2,303	2,708	3,247

CSI = cottage and small industry, NPL = nonperforming loan, ROAA = return on average assets, ROAE = return on average equity.

<sup>a</sup> Including group loans.

Source: Asian Development Bank.

## ANNUAL STATEMENT OF UTILIZATION OF FUNDS FOR BHUTAN DEVELOPMENT BANK

### Annual Statement of Utilization of Funds

For the Year Ended [dd/mm/yy]

(in Nu)

	<u>Notes</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Cumulative</u>
	*			
	-			
<b>A. Opening cash advance</b>		xx	xx	xx
I. Sources of funds				
1. ADB loan proceeds		xx	xx	xx
2. Others (e.g. interest earned)		xx	xx	xx
Total (sum 1 to 2)		xx	xx	xx
II. Uses of funds				
1. Subloans to xx (with supporting schedule for qualified sub-borrowers)		xx	xx	xx
2. Subloans to xx (with supporting schedule for qualified sub-borrowers)		xx	xx	xx
Total (sum 1 to 2)		xx	xx	xx
<b>B. Net cash activity (I - II)</b>				
<b>C. Ending cash balance (A - B)</b>				
<b>D. Cash in bank</b>				
<b>Reconciliation</b>				
Amount advanced by ADB		xx	xx	xx
Add: Amount supplemented by ADB		xx	xx	xx
<b>Present outstanding amount advanced</b>		xx	xx	xx
Closing balance at year-end		xx	xx	xx
Add: Amounts withdrawn and not yet claimed		xx	xx	xx
Deduct: Interest included in closing balance		xx	xx	xx
<b>Total advances accounted for</b>		xx	xx	xx

\*Please provide accompanying note disclosure and supplementary schedules necessary to explain the main statement.

## TERMS OF REFERENCE FOR AUDIT OF STATEMENT OF UTILIZATION OF FUNDS AND SPECIFIC AUDIT ASSURANCE REQUIRED FOR BHUTAN DEVELOPMENT BANK

### A. Audit Requirements

1. With regard to the Statement of utilization of Funds, ADB requires the following on an annual basis:

- (i) **Audit of the Annual Statement of Utilization of Funds.** The purpose of the audit of Statement of Utilization of Funds is to enable the auditor to provide an independent and objective professional opinion on whether the Statement of Utilization of Funds gives a true fair view or is presented fairly, in all material respects, in accordance with the applicable financial reporting framework. The audit review will include Statement of Expenditures records and imprest fund procedure.
- (ii) **Management Letter.** Identifying any material weaknesses in the accounting and internal control systems that were identified during the audit of the Statement of Utilization of Funds, and recommendations to rectify identified weaknesses and clients' comments on the findings and status of significant matters raised in previous management letters. The Management Letter should include only those issues which do not affect the fairness of the Statement of Utilization of Funds. Serious issues which affect the auditor's opinion as to whether the Statement of Utilization of Funds gives a true and fair view, should be referred to in the audit opinion.

2. The audited Statement of Utilization of Funds and Management Letter will all be provided in English no later than six months after the end of the fiscal year to which they relate.

3. ADB shall disclose the annual audited Statement of Utilization of Funds and the opinion of the auditors thereto within 14 days of the date of ADB's confirming their acceptability by posting them on ADB's website. The Audit Management Letter will not be disclosed.

4. Auditors engaged to audit projects expenditures should understand the project and the entity being audited, including the contents of the Report and Recommendation of the President to the Board of Directors and legal agreements. Auditors should also familiarize with ADB's guidelines on auditing.<sup>1</sup>

### B. Standards

5. The auditors should accordingly consider materiality when planning and performing the audit(s) to reduce audit risk to an acceptable level that is consistent with the objective of the audit. Although the responsibility for preventing irregularity, fraud, or the use of loan proceeds for purposes other than as defined in the Project Agreement remain with BDB, the audits should be planned so as to have a reasonable assurance of detecting material misstatements in the Statement of Utilization of Funds.

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<sup>1</sup> Available from <http://www.adb.org/>. ADB's revised audit requirements are explained in the *Handbook for Borrowers on the Financial Management and Analysis of Projects* (2006), <https://www.adb.org/documents/handbook-borrowers-financial-management-and-analysis-projects>, and *Financial Management and Analysis of Projects* (2005), <https://www.adb.org/documents/financial-management-and-analysis-projects> or their updated versions.

### **C. Clients Input and Counterpart Personnel**

6. The auditors will have full and complete access, at all reasonable times to all records and documents including books of account, legal agreements, bank records, invoices, and any other information associated with the project and deemed necessary by the auditor. BDB will have no objection to auditor's access to consultants, contractors, and other persons or firms hired by BDB.

7. The auditor will be provided with full cooperation by all employees of BDB, whose activities involve, or may be reflected in, the Statement of Utilization of Funds.

### **D. Record Keeping**

8. The auditors will pay particular attention to whether all necessary supporting documents, records, and accounts have been kept in respect of all project activities, with clear linkages between the accounting records and the Statement of Utilization of Funds. This will include (i) computation and recalculation, including checking the mathematical accuracy of estimates, accounts, or records; (ii) reconciliation, including reconciling related accounts to each other, subsidiary records to primary records and internal records to external documents; and (iii) tracing, including tracing journal postings, subsidiary ledger balances, and other details to corresponding general ledger accounts or trial balances.

### **E. Independence**

9. The auditors will be impartial and independent from any aspects of management or financial interest in the entity under audit. In particular, the auditors should be independent of the control of the entity. The auditors should not, during the period covered by the audits, be employed by, or serve as director for, or have any financial or close business relationship with the entity. The auditors should not have any close personal relationships with any senior participant in the management of the entity. The auditors must disclose any issues or relationships that might compromise their independence.

10. The auditors must be authorized to practice in the country and be capable of applying the agreed auditing standards. The auditors should have adequate staff, with appropriate professional qualifications and suitable experience, including experience in auditing the accounts of entities comparable in nature, size and complexity to the entity whose audit they are to undertake. To this end, the auditors are required to provide curriculum vitae (CV) of the auditors who will provide the opinions and reports, together with the CVs of managers, supervisors and key personnel likely to be involved in the audit work. These CVs should include details of audits carried out by these staff, including ongoing assignments.

## SEMI- ANNUAL PROJECT PERFORMANCE MONITORING REPORT

(dd/mm/yyyy)

### a. Basic Data

<b>Loan No</b>	
<b>Country</b>	Bhutan
<b>Project Title</b>	Rural Finance Development Project
<b>Approved Loan Amount</b>	\$20 million
<b>Approval Date</b>	
<b>Closing Date (original)</b>	
<b>Executing Agency</b>	Department of Macroeconomic Affairs, Ministry of Finance
<b>Implementing Agency</b>	Bhutan Development Bank

### 2. Progress against Design and Monitoring Framework

Performance Targets and Indicators	Baseline (December 2019)	Targets	Timing	Status (as of ____)	Remarks
<b>Output Indicators</b>					
<b>Key Activities and Milestones</b>					

### 3. Subloan Profile

No.	Name of Branch	Amount of Loan Disbursed	Name Borrowers	Male/ Female	Type of Activity	No. of Employee , if any	No. of Female Employee, if any	Loan Maturity	Effective Interest Rate	Portfolio at Risk

**4. Financial Literacy Training Activities**

Name of Branch	Date of Training	No of Female Participants	No of Male Participants	Type of training extended	Post training evaluation (No. of participants responded "satisfactory")

**5. Business Development Services**

Name of Branch	Date of Service	Name of Female subborrower business development service recipient	Name of Male subborrower business development service recipient	Type of subproject	Approved subloan amount	Date of subloan approval

**6. Safeguards Compliance Monitoring**

Branch	No. of CSIs screened for Environment and Social Safeguards

**Compliance with Relevant Government Requirements**

**Environmental Capacity**

**Compliance with Applicable Environmental Safeguard Requirements as Defined in**

## **ESMS**

### **7. Outstanding Project Management Issues**

## GENDER ACTION PLAN IMPLEMENTATION REPORT

Activities	Targets and Indicators	Responsibility	Progress as of _____	Remarks (Reasons for non-implementation of activity and non-achievement of target)
<b>A. Output 1:</b>				
<b>B. Output 2:</b>				
<b>C. Output 3:</b>				

