GOVERNMENT OF PEOPLE'S REPUBLIC OF BANGLADESH

JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

(BD-P67)

OPERATING GUIDELINES
FOR
FINANCIAL SECTOR PROJECT FOR
THE DEVELOPMENT OF
SMALL AND MEDIUM-SIZED ENTERPRISES
IN BANGLADESH

PROJECT IMPLEMENTATION UNIT

SME AND SPECIAL PROGRAMMES DEPARTMENT

BANGLADESH BANK

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ABBREVIATIONS

BB	Bangladesh Bank
BFID	Bank and Financial Institutions Division
DOE	Department of Environment
GOB	Government of Bangladesh
JICA	Japan International Cooperation Agency
JPY	Japanese Yen
L/A	Loan Agreement
MOF	Ministry of Finance
MOI	Ministry of Industries
ODA	Official Development Assistance
PFI	Participating Financial Institution
PIU	Project Implementation Unit
P/R	Progress Report
RFA	Revolving Fund Account
SA	Special Account
SC	Steering Committee
SME	Small and Medium-sized Enterprise
Tk	Bangladesh Taka
TSL	Two-Step Loan
USD	United States Dollars

DEFINITIONS

Assessment rate of security property
…………………………….. a coefficient for the calculation of a security value, which is less than 1, set by each credit institution

End-borrower …………..... a borrower of a Project sub-loan

Financed Property ……..… property obtained by using a Project sub-loan

On-Lending Loan ……….... a loan for the fund of a sub-loan, lent by BB to a PFI

On-Lending Loan agreement ….. a contract of an on-lending loan between BB and PFIs

Participation agreement …... a basic agreement of on-lending loans between BB and PFIs

Project …………………….. Financial Sector Project for the development of small and medium-sized Enterprises

Property value …………..… a value of a property used for security

Revolving fund account ….. a bank account held by BB for managing funds of the TSL Project

Sub-loan ………………….. a loan lent by a PFI to an end-borrower to finance an eligible sub-project

Sub-Project ……………….. an objective project of a TSL Project sub-loan

Introduction

Purpose of Operating Guidelines

It is widely recognized that the development of Small and Medium Enterprises (herein after referred as “SMEs”) is essential for overall economic development of a country. Based on this recognition, the Financial Sector Project for the Development of Small and Medium-Sized Enterprises (herein after referred as “the TSL Project”) was formulated, and the Loan Agreement (herein after referred as “L/A”) for the TSL Project was signed between the Japan International Cooperation Agency (herein after referred as “JICA”) and the Government of Bangladesh (herein after referred as “GOB”) on 18 May, 2011.

Under the TSL Project, JICA will lend to the government at concessional ODA loan. These funds will in turn be on-lent to the Participating Financial Institutions (herein after referred as “PFIs”), which would then re-lend the fund to private sector sub-borrowers. The funds available under the TSL Project would be passed on to the PFIs on a back to-back basis, i.e., the PFIs would repay to the government on essentially the same loan repayment schedule as for the underlying sub-loan. That is why this type of ODA loan is called as “two-step loan”.

These Guidelines for the Project Implementation Unit (herein after referred as “PIU”) and for the PFIs are intended to facilitate PIU and PFIs to thoroughly understand policies and the mechanism of the TSL Project, to process the JICA ODA long-term loan to the Government of Bangladesh (herein after referred as “the Loan”) provided under the L/A, and to realize successful implementation of the TSL Project. Please note, however, that these Guidelines are subject to change or revision preferable or necessary, or reflecting changes in economic situation or laws.

Modification of Operating Guidelines

Any change in the Operating Guidelines, which would materially change the structure and/or nature of the TSL scheme, shall be made by the PIU with approval by the authorized person or organization, and upon reporting to the organization as specified in each of the Guidelines. The authorized person or organization and the reporting requirements are summarized in the Annex I.

PART: I. POLICY

1. Two-Step Loan Project

1.1. Objective of the Project

The TSL Project aims at private SME sector development through i) provision of market-based medium- and long-term finance to SMEs in all sectors with certain exceptions, and ii) provision of technical assistance to banks and financial institutions, thereby contributing to sound growth of the industry and economy in Bangladesh as well as the employment generation and poverty reduction on a sustainable basis, and the development of long-term finance market for SMEs. Given the strategic importance of the industry sector, financial assistance to SMEs in the manufacturing sector is highly expected.

1.2. Scheme of the Project

The TSL Project is an on-lending loan scheme to provide medium- and long-term loans to SMEs through the accredited PFIs. JICA provides the Loan funds in Japanese Yen (JPY) to the Government of Bangladesh (herein after referred as “GOB”) represented by its Ministry of Finance (herein after referred as “MOF”). The Borrower shall authorize the Bank and Financial Institutions Division of the Ministry of Finance (herein after referred as “MOF-BFID”) to implement the TSL Project. MOF-BFID shall be the Executing Agency of the TSL Project, The JPY funds provided are exchanged to Bangladesh Taka (Tk) and used by PFIs for their financing medium- and long-term loans to SMEs (herein after referred as “Sub-loans”) for their investment, such as purchasing machinery and equipment, and short-term loans for the initial working capital related to such investment. In practice, Bangladesh Bank (herein after referred as “BB”) will act as an Implementing Agency responsible for the administration of the Project on behalf of MOF-BFID, and make On-Lending Loans to PFIs (herein after referred as “OLLs”), which, in turn, will make Sub-loans to end-borrowers.

The amount of the Loan is JPY 5,000,000,000 (Tk 4,500,000,000 equivalent) in total, of which JPY 4,787,500,000 (Tk 4,310,000,000 equivalent) is earmarked for TSL to SMEs.[1]

1.3. Management Structure of the Project

The structure, i.e., key players and funds flow in disbursement and repayment, of the TSL Project are outlined in Annex II and III, respectively, and the principal functions of each player are following.

1.3.1. Steering Committee (SC)

For the smooth implementation of the TSL Project within the framework of the SME promotion policy of GOB, the Steering Committee will be established at ministry level. The members of the Steering Committee will be composed as follows:

- ✓ Chairman:
  (1) Secretary, or a suitable representative, of MOF-BFID (Executing Agency)
- ✓ Members:
  (2) A suitable representative from BB (Implementing Agency),

[1] Taka amount is just an indicator for the scale of the Loan converted from Yen amount using the exchange rate as of the signing date of the Loan Agreement.

(3) A suitable representative from Finance Division (FD) of MOF,
(4) A suitable representative from Economic Relations Division (ERD) of MOF,
(5) A suitable representative from Implementation Monitoring and Evaluation Division (IMED) of Ministry of Planning ,
(6) A suitable representative from Planning Division (PD) of Ministry of Planning ,
(7) A suitable representative from SME Cell of Ministry of Industries (MOI),
(8) A suitable representative from SME Foundation (SMEF),
(9) A suitable representative from a PFI nominated by BB,
(10) A suitable representative from the Federation of Bangladesh Chamber of Commerce and Industry (FBCCI), and
(11) Others who may be considered necessary by GOB.

- ✓ Secretariat:
  (12) Project Implementation Unit (PIU)
- ✓ Observer:
  (13) JICA

The principal function of the Steering Committee is to discuss and make decisions on policy issues relevant to the implementation and management of the TSL Project, inter alia:

- ✓ review, consider and approval of major policy changes of Operating Guidelines;
- ✓ supervision of the Two Step Loan (TSL) project;
- ✓ important issues related to implementation of the TSL project;
- ✓ policy formulation for development of SMEs; and
- ✓ any other issues related to smooth operation of the project.

The Steering Committee will convene at least once every quarter, but can be held on an ad-hoc basis if any issue arises to be discussed immediately.

1.3.2. Ministry of Finance (MOF)/ the Executing Agency

The MOF-BFID will play the role of Executing Agency on behalf of the GOB who bears the prime responsibility of receiving and repaying Japanese ODA loans from and to JICA and supervision of the TSL Project in light of the development policy of the GOB. The GOB shall bear the credit risk of PFIs as well as the exchange risk.

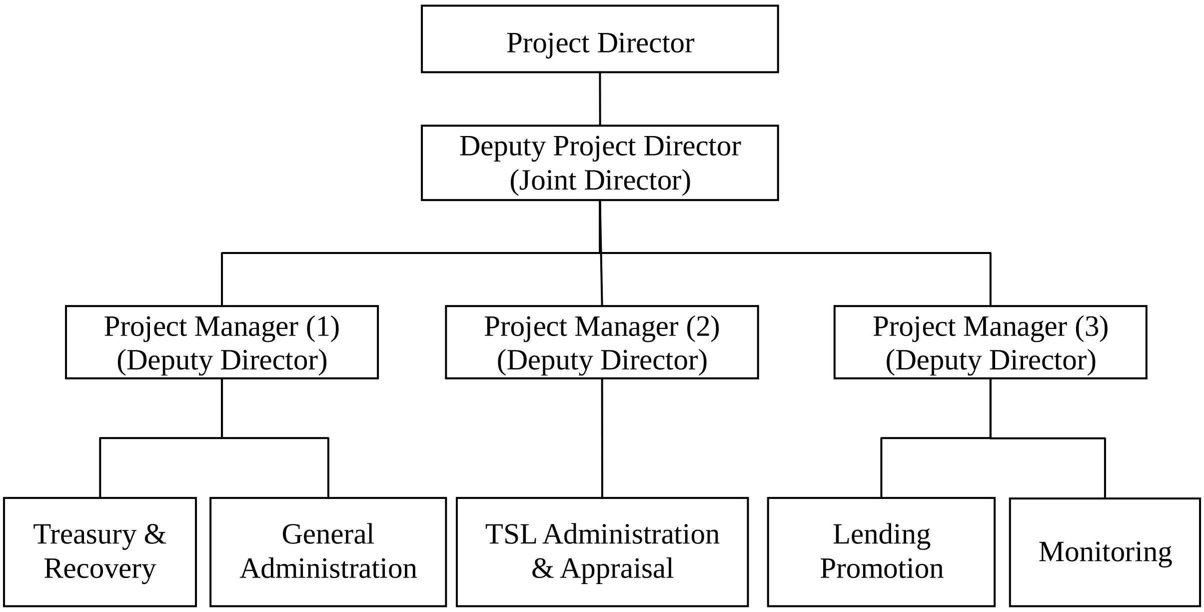
1.3.3. Bangladesh Bank (BB)/ the Implementing Agency

Bangladesh Bank, in particular its SME & Special Programmes Department (SMESPD), will act as an Implementing Agency responsible for the administration of the TSL Project with aim to achieve the project objective under the Administration Agreement concluded between MOF-BFID and BB prior to the effectuation of the Loan Agreement. The Implementing Agency will be supported by the Consultant to be employed under the TSL Project.

1.3.4. Project Implementation Unit (PIU)

For the purpose of the smooth implementation of the TSL Project, the Project Implementation Unit (PIU) will be established at SMESPD of BB with a Project Director, a Deputy Project Director, full-time Project Managers and the adequate number of staff members who will specifically handle all relevant tasks related to the TSL Project. The structure of PIU will be as shown below in Figure 1-1.

Figure 1-1: Organogram of Project Implementation Unit (PIU)



The Project Director will be primarily responsible for the TSL Project implementation, and shall mobilize any directorate of BB necessary for the smooth implementation of the TSL Project through appropriate authority of BB. BB May assign appropriate level staff members in the PIU as they think fit.

The functions of the PIU, which shall be practically performed on behalf of the Implementing Agency, are implementation, administration and operation of the Project. Such functions will be performed by each section comprising the PIU, which is shown below:

(1) Treasury & Recovery Section
- due maintenance of the Special Account, the Project Operating Account and the Revolving Fund Account established for the TSL Project, and disbursements of OLL funds to PFIs, including instruction to the Accounts and Budgeting Department for transfer of funds from/ to such Project Accounts,
- instruction to the Accounts and Budgeting Department to transfer funds to be paid by PFI to Revolving Fund Account, BB’s Revenue Account and MOF’s Revenue Account,
- request for initial disbursement and replenishment to JICA,
- preparation of statements of the Project Accounts, and
- full cooperation to external audit of the Special Account, the Project Operating Account and the Revolving Fund Account as well as to the external audit for Statement of Expenditures.

(2) General Administration Section
- coordination with BB’s other departments for general affairs, and
- provision of necessary administrative assistance for other sections of PIU and the Consultants to undertake the technical assistance component of the TSL Project.

(3) TSL Administration & Appraisal Section
- conducting the accreditation of PFIs, including annual review,
- concluding an Participation Agreement with PFIs, and
- review of OLL Applications from PFIs.

(4) Lending Promotion Section
- coordination with PFIs and business associations for PR activities.

(5) Monitoring Section
- daily monitoring of the TSL Project,
- production of quarterly Progress Reports (P/R), including On-going Sub-project Summary Report, and Project Completion Report (PCR), and
- preparation of Current Repayment and Overdue Status Report.

1.4. Governing Agreements for the TSL Project

The TSL Project will be implemented based on the following agreements:

1.4.1. Loan Agreement (L/A) between JICA and GOB

The L/A stipulates obligations of the Borrower, inter alia:

(1) Loan Amount and Allocation of Proceeds of Loan,
(2) Disbursement Procedure,
(3) Administration Structure, and
(4) Reporting Requirements to JICA.

1.4.2. Project Memorandum (P/M) on the TSL Project between JICA and GOB

The P/M stipulates various issues on the implementation of the TSL Project, inter alia:

(1) Confirmation on the contents of the Minutes of Discussion (M/D) including the Project Status Report (PSR), and the Main Points Discussed (MPD),
(2) Submission of reports and information required as per L/A and M/D,
(3) Monitoring Indicators in the PSR, and
(4) Public Relations (PR) activities.

The major contents of P/M, M/D, PSR and MPD has been incorporated in this Operating Guidelines, however, it is recommended to refer to these documents from time to time to obtain deeper understanding of the scheme of the TSL Project, including the background.

1.4.3. Administration Agreement between MOF and BB

The Administration Agreement officially authorizes BB as the Implementing Agency which has been fully effective since 7 September 2011 and will be valid until March 2021 or such other date as may be agreed between the Government of Bangladesh and BB.

1.4.4. Participation Agreement between BB and PFI

Each accredited PFI will conclude a comprehensive Participation Agreement with BB, which is a basic agreement to be applied to all the OLLs. The form of the Participation Agreement is shown as ANNEX IV. The Participation Agreement provide for what is required to PFI under the TSL Project, inter alia:

(1) Terms and Conditions of the OLLs and the Sub-loans;
(2) Eligibility Criteria for End-Borrowers and Sub-projects;
(3) Procedures for OLL and its Repayment; and
(4) Monitoring and Reporting Requirements to PIU.

The Participation Agreement shall also include, but not limited to, the following obligations of PFI:

(1) To comply with all the rules and regulations applicable to banks and financial institutions in Bangladesh;
(2) To comply with the accreditation criteria at all times unless the PFI is at the remedial stage and is so allowed by BB;
(3) To comply with all the terms and conditions of sub-loans as specified above as well as in the Operating Guidelines prepared by PIU and approved by the Steering Committee;
(4) To supervise and monitor the implementation of sub-projects by end-borrowers to assure that the purpose of the TSL Project shall be accomplished;
(5) To implement the TSL Project and conduct its operations and affairs, in accordance with sound administrative, financial, economic and managerial standards, and to provide, promptly as needed, the funds, facilities, services and other resources required for such purpose;
(6) To disclose or submit all information required by PIU, including, but not limited to, audited financial statements and reports required by PIU for the implementation and monitoring of the TSL Project;
(7) To allow PIU to suspend, terminate or withdraw OLL when violations are observed;
(8) To enable PIU, MOF-BFID or JICA to inspect the PFI or any sub-projects and review any relevant records and documents maintained by the PFI, if PIU, MOF-BFID or JICA so requests; and
(9) To cooperate with PIU to promote public relations of the TSL Project.

1.4.5. Sub-loan Agreement between PFI and End-borrower (SME)

A Sub-loan Agreement shall be signed between a PFI and an End-borrower that stipulates the Terms and Conditions of the Sub-loan. The Sub-loan Agreement shall also include, but not limited to, the following obligations of the End-borrower:

(1) To use the proceeds of the Sub-loan exclusively for the purpose of the Sub-project which only includes eligible items as specified;
(2) To submit the evidence of use of the proceeds of the Sub-loan (e.g. receipt or bill, invoice from suppliers);
(3) To submit their financial statements for every accounting term, at least on an annual basis, until the full repayment of the Sub-loan;
(4) To enable the PFI, PIU, MOF-BFID or JICA to inspect the Sub-project, if the PFI, PIU, MOF-BFID or JICA so requests;
(5) To follow all the environmental regulations established by GOB and JICA’s guidelines for environmental and social consideration; and
(6) To allow PIU and the PFI to suspend, terminate or withdraw the Sub-loan when a violation is observed.

2. Eligible End-borrowers and Sub-Projects

The TSL Project aims at private SME sector development through:

- ✓ provision of market-based medium- and long-term finance to SMEs, mainly in manufacturing sector, through the accredited PFIs; and
- ✓ provision of technical assistance to banks and financial institutions.

thereby contributing to the development of financial market and the employment creation, growth and poverty reduction on sustainable basis in Bangladesh. PFIs will select bankable end-borrowers on first-come first-served basis.

2.1. Eligibility Criteria for End-borrowers

PFI will provide a Sub-loan, which is a medium or long-term loan to an eligible end-borrower, i.e. eligible SMEs, for its investment in accordance with Participation Agreement.

2.1.1. Legal Status

Eligible End-borrowers shall be private sector enterprises in any type of the followings:

(1) Limited liability company;
(2) Private proprietor; or
(3) Partnership.

The private sector enterprises shall be owned by private investors including foreign investors in majority (more than 50%), and be duly registered under the Company Act 1994 or have appropriate licenses issued by local governments. Public limited companies and state-owned companies shall be excluded from eligible End-borrowers.

2.1.2. Size

The size of eligible End-borrowers shall be based on the definition of SMEs provided in BB's SMESPD Circular No. 01 dated 19 June 2011, which, on the basis of the new definition in the Industrial Policy 2010, defines SMEs[2] as follows:

Table 2-1: Definition of SMEs

Sector	Total Fixed Assets excluding land and building (Tk million)	Labor Employment
Medium industry/ enterprise		
Manufacturing	100.0 - 300.0	100 - 250
Service/ Trading	10.0 - 150.0	50 - 100
Small enterprise		
Manufacturing	5.0 - 100.0	25 - 99
Service/ Trading	0.5 - 10.0	10 - 25
Micro enterprise		
Manufacturing	0.5 - 5.0	10 - 24
Service/ Trading	≤ 0.5	≤ 10

Exception: RMG and Knitwear sector industries which are member of BGMEA and/or BKMEA with labor employment 100-2000.

Note 1: If any enterprise falls under a particular category under one criterion (total fixed assets or employment) but a larger-size category under the other, then the enterprise will be classified into the latter category.

Note 2: The definition for the trading sector has been added by BB and is applicable to the various financings made by BB.

Note 3: The exception will only be applicable for the RMG and Knitwear sector safe working environment program under an MOU signed among JICA, BB, PWD, BGMEA and BKMEA. The concept note and the signed MOU will be an integral part of the RMG Sector Safe Working Environment program along with this Operating Guidelines.

The category for employment of 26 to 49 workers in the service sector is missing in the BB's Circular as well as the Industrial Policy 2010. MOI has clarified that this category should fall under

[2] Any change in the definition of SMEs used under the TSL Project shall be first approved by the Steering Committee and then concurred by JICA.

the category of medium enterprise, which will also be applied by BB.

In the current definitions practically used by BB, those public limited companies or subsidiaries of large enterprises whose sizes belong to the above definition of SMEs are not entitled to be treated as SMEs. This practice shall be applied for this TSL Project, too.

2.2. Eligible Sub-Project

The JICA assisted TSL Project places higher priority on enhancement of the investment by SMEs in productive equipment and facilities in order to contribute to the improvement of the productivity of SMEs.

2.2.1. Eligible Business Sectors for Investment

There are no specific sectors being targeted and SMEs in all sectors, i.e., Eligible SMEs belonging to either of the manufacturing, trade or services sectors, will be eligible for the TSL Project scheme. However, some business sectors listed below are defined as "<u>non-eligible</u>" for financing under the TSL scheme on the basis of the objectives of the TSL Project:

(1) Crop and fish production;
(2) Real estate;
(3) Finance, insurance;
(4) Precious metal dealing;
(5) Bar and pub;
(6) Amusement, entertainment (except for amusement park, tourism, film-making and TV broadcasting);
(7) Weapon, ammunition; or
(8) Anything harmful to the social stability.

2.2.2. Eligible Geographical Location

There are no conditions set on the geographical location of business. The TSL Project includes the metropolitan areas of Dhaka and Chittagong as well.

2.2.3. Purpose of Investment

2.2.3.1. Eligible Investments for financing under the TSL Project

In order to enhance investment of SMEs in the productive equipment and facilities, the following items will be eligible for financing under the TSL scheme:

(1) Fixed Assets, including;
- machinery and equipment, and
- factory buildings[3] and related civil works.

(2) Technical Know-how, Consulting Services and Training; and
(3) Initial Working Capital, which is associated with the investment loan[4].

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[3] Buildings related to the investment include not only those being newly constructed but also buildings purchased. In addition, the building related to the investment includes such as warehouse, workshop and office in the factory.

[4] The working capital will be eligible only if effective use of the investment loan is associated. Mere working capital loans will not be extended.

2.2.3.2. Ineligible Investments for financing under the TSL Project

Purchase of land or land use rights and payment of tax and import duties are not eligible for financing.

2.3. Social and Environmental Consideration

The Sub-project shall pay due consideration on the social and environmental impacts associated with and be required to be in accordance with JBIC Environmental Guidelines[5]attached as Annex XI. Under the Guidelines, no investment activity will be financed by the TSL scheme, which is likely to have significant adverse impact on the environment, and which could be classified as Category A. A list of sensitive sectors (i.e., sectors that are liable to cause adverse environmental impact) or sensitive characteristics (i.e., characteristics that are liable to cause adverse environmental impact) is provided in the Guidelines. Similarly, ADB adopts a list of Prohibited Investment Activities in SME Development Project. These investment activities, which are ineligible for the TSL financing, are summarized in Annex V.

2.4. Revision of Eligibility Criteria

Any change in the eligibility criteria used under the TSL Project shall be first reviewed and approved by the Steering Committee and then reviewed and concurred by JICA.

3. Financing Scheme

JICA will lend to the GOB at its standard term of ODA loan to GOB. These funds will be on-lent to the Participating Financial Institutions (PFIs), which would then re-lend the fund to private sector end-borrowers. In order to contribute to the improvement of the productivity of SMEs, the TSL Project is to provide medium- and long-term loans to SMEs, and places higher priority on enhancement of the investment by SMEs in productive equipment and facilities, including machinery, equipment, factory buildings and related civil works, technical know-how, consulting services and training.

3.1. Terms and Conditions of Sub-loan

The PFI shall assume all lending risks associated with extending of Sub-loans under the TSL Project. The terms and conditions of the Sub-loan scheme under the TSL Project are outlined in Annex VI. The Sub-loan is the term used to express the loan to be provided by the PFI to the End-borrower which includes the credit funded by the OLL from PIU and by the PFI’s own funding source. A Sub-loan also means the combined total of the credit for fixed investment and for working capital to the End-borrower. The minimum and maximum ceiling amount established for the eligibility criteria of the Project in respect of the loan amount shall be applicable to the total amount of the financing for the fixed investment and for the working capital to the End-borrower.

SMEs in different sectors and of different natures will be equally treated with regard to the terms and conditions of loans so far as they satisfy pre-set eligibility criteria.

As indicated in Section 3 of the Participation Agreement, there are specific conditions required for Sub-projects as shown below:

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[5] The governing rule for the environmental and social consideration for the Project is; the one adopted by JICA, “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations”, 2002.

- ✓ Minimum of 10% of the total estimated cost of Sub-project is to be financed from Borrower's own resources, in cash or in kind;
- ✓ Minimum of 15% of the total estimated cost of Sub-project is to be financed from PFI's own fund resources;
- ✓ Maximum of 75% of the cost of the Sub-project can be financed from the OLL window of the TSL scheme; and
- ✓ Sub-loan for Sub-project will not be used to finance such items as: purchase of land, land use rights, payment of tax and import duties, working capital[6] and cost of such activities as resettlement and other compensation cost and refinancing for existing loans[7].
- ➲ Exception is applied for **women led enterprises financing** and the RMG and Knitwear sector safe working environment program:
  - o *Minimum of 10% of the total cost of the sub-project is to be financed by the borrower from his own resources; and*
  - o *Maximum of 90% of the cost of the sub-project can be financed from the OLL window of the TSL scheme.*

Note: The exception will be applicable for women led enterprises and the RMG and Knitwear sector safe working environment program under an MOU signed among JICA, BB, PWD, BGMEA and BKMEA. The concept note and the signed MOU will be an integral part of the RMG and Knitwear sector working environment program along with this Operating Guidelines.

Sub-loan shall be made on terms whereby PFI shall obtain, by written contract (a sub-loan agreement) with the End-borrower, or by other appropriate legal means, rights adequate to protect the interest of PFI, including the right to:

(1) require the End-borrower to use the proceeds of Sub-loan exclusively for the purpose of Sub-project which only includes eligible items as specified above;
(2) require the End-borrower to carry out and operate the Sub-project with diligence and efficiency and in accordance with sound technical, financial, resettlement, environmental[8] and managerial standards, including the implementation of the action plan for displaced persons, and to maintain adequate records;
(3) require the End-borrower to submit their financial statements for every accounting term, at least on an annual basis, until the full repayment of sub-loans;
(4) inspect, by itself or jointly with representatives of PIU, MOF-BFID or JICA, if they shall so request, such goods, works, plants and constructions and installations, as the case may be, included in the Sub-project, the operation thereof, and any relevant records and documents;
(5) obtain all such information as JICA, MOF-BFID, PIU or PFI may reasonably request relating to the foregoing and to the administration, operations and functional conditions of the End-borrower, and to the benefits to be derived from the Sub-project;
(6) involve any remedies against the End-borrower, including suspension, termination or withdrawal of the Sub-loan, which will be available to PFI by law, in event of failure of the End-borrower to perform its obligation under contract with PFI; and
(7) take any legal action against the End-borrower in case of default following the prevailing rules and regulations and prudential regulations/ guidelines of BB.

3.2. Terms and Conditions of On-lending Loan

Basic terms and conditions of the OLL from BB to the accredited PFIs are outlined in Annex VII.

The principal and interest payments of OLLs shall be made in accordance with the schedule of amortization of each Loan as prepared by PIU. These payments of interests and repayments of principal shall be realized by debiting them against the current account of the concerned PFI maintained with BB. Then, principals of

[6] Sub-loan proceeds may be used for initial working capital, which is associated with the investment loan.
[7] The refinancing can be extended only for sub-loans that have been disbursed 1 month prior to PFI's request of the respective OLL. If a sub-loan is disbursed in more than one installment, this cut-off date should be counted from the final disbursement.
[8] established by GOB

OLLs shall be credited to Revolving Fund Account (RFA), and one-fifth (1/5) of interests on OLLs to Revenue Account of BB and four-fifth (4/5) to Revenue Account of MOF, respectively.

In such cases, no overdue of interest and principal payment is expected. However, the PFI may request BB, in advance, to make delay in debiting the PFI's account on valid ground like liquidity problem, CRR & SLR requirements etc. In such cases, PFI should pay a penalty of 3% above the Bank Rate (the rate of interest of OLL) on due amount applied for. Note that maximum of only 3 working days may be allowed with condition that penal interest shall be charged for the number of days actually elapsed from the due date. On the contrary, in case of prepayment of OLL, the PIU will not impose any penalty, which is different from the general practice in term lending by banks.

Interest on OLLs shall be calculated on accrual basis of the number of days actually elapsed.

3.3. Revision of Terms and Conditions

Any change in the terms and conditions of the OLL as well as the Sub-loan specified above, which would materially change the structure and/or nature of the TSL scheme, shall be approved by the Steering Committee and JICA. Such revision shall, in principle, be applied to uncommitted loans only. The application of such revision to an outstanding or committed loan shall be subject to an agreement between the related parties.

3.4. Financing Method

Both refinancing and pre-financing methods will be allowed for the disbursement of OLL, depending on the amount of each Sub-loan.

Under the Refinancing Method, the PFI makes disbursement of the Sub-loan prior to submitting its Request for On-lending to PIU, whereas under the Pre-financing Method, the PFI makes disbursement after it receives the disbursement of OLL from PIU. Disbursement under the Pre-financing Method will be made on a loan-by-loan basis, not making a certain amount of deposits in a PFI account. For Sub-loans below Tk 7.0 million[9], PFIs shall be allowed to use the Refinancing Method only, while, for Sub-loans equal to or above Tk 7.0 million, PFIs can exercise the option to choose Refinancing Method or Pre-financing Method.

The OLL in use of the Refinancing method can be extended only for Sub-loans that have been disbursed one (1) month prior to PFI's request of the respective OLL[10].

4. Participating Financial Institution (PFI)

4.1. Accreditation Criteria for PFI

The eligible PFIs for the OLL under the TSL scheme shall be screened by the accreditation criteria[11] set forth in Attachment 13 of the Project Memorandum, which is shown in Annex VIII. The principal items of criteria are following, inter alia:

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[9] Any change in the cut-off amount of Tk 7.0 million used for differentiating financing methods (refinancing versus pre-financing) under the TSL Project shall be reviewed, approved by the Steering Committee, and reported to JICA.

[10] If a Sub-loan is disbursed in more than one installment, this cut-off date should be counted from the latest disbursement.

[11] Any change in the accreditation criteria shall be reviewed and approved by the Steering Committee subject to JICA's review and concurrence.

(1) Legality (licensed, approved and supervised by BB),
(2) Operational Experiences (minimum 3 full years with audited records),
(3) Commitment to SME lending (expansion of lending in SME sector),
(4) Capital Adequacy (compliance with the minimum capital requirement and CAR),
(5) Profitability (profitable operation for 2 consecutive years),
(6) Non-Performing Loans (NPL ratio not exceeding 10%),
(7) CAMELS rating (not classified as problem bank or early warning bank), and
(8) Prudential regulations (transparency, governance, risk management).

4.2. Accreditation Assessment

PIU shall invite applications from banks and financial institutions, examine their eligibility vis-à-vis the accreditation criteria, list up eligible PFI candidates, obtain JICA's concurrence, approve the final list of eligible PFIs, and report it to the Steering Committee.

4.3. Accreditation Procedure

In order for the above process, PIU shall establish the accreditation procedure which includes the following:

(1) Application from banks and financial institutions,
(2) Due diligence of banks and financial institutions by PIU, and
(3) Monitoring and review of PFI compliance with accreditation criteria.

4.4. Entry or Exit of PFIs

At the time of annual review of PFIs, applications for new entry and/or exit shall be considered. Any change in the list of accredited PFIs at the time of annual review shall be approved by PIU subject to JICA's review and concurrence, and be reported to the Steering Committee.

4.5. Loss of Eligibility

Irrespective of the timing, whether at the time of the annual review or else, PFIs that are found to be failing to meet the accreditation criteria will be required to submit remedial plans for examination by PIU. If the submitted plans are deemed sufficient to endorse that the non-compliance is likely to be solved within a reasonable time limit, PIU may agree to allow those banks and financial institutions to maintain the PFI status conditioning the time limit. Otherwise, the PIU shall take actions to stop disbursing new On-lending Loans until the PFI becomes fully accredited again.

5. Sub-loan by PFI

5.1. Pre-conditions for Sub-loan

The TSL Project is made possible with the funds to be provided by JICA and with the administering and intermediary role played by PIU, it is imperative to have it clearly understood and accepted by the End-borrower that PIU and JICA may intervene the credit appraisal, implementation, administration, monitoring as well as review of the Sub-loan. The PFI shall have the End-borrower agree the pre-conditions of the Project as have been stated earlier in Section 3.1.

5.2. Application for Sub-loan to be prepared by the End-borrower

The PFI shall have the End-borrower prepare an application for the Sub-loan prior to proceeding to the credit appraisal process of the bank. The PFI shall use its own format for Application of Sub-loan. In preparing the formalities required for the Project, the PFI is guided by BB's Small and Medium Enterprise Credit Policies and Programmes in which it is stipulated that each bank/financial institution shall follow a separate business strategy in financing SME loan with least formalities in executing documentation to ensure easy and speedy loan sanction and disbursement process. Any part of the information that is required under the Project but is not required under the prevailing commercial practice must be provided additionally by the End-borrower to PFI. The application shall contain, among others, the information required for the credit appraisal and for examining the compliance of the Sub-loan with the eligibility criteria of the Project.

5.3. Credit Appraisal and Approval of Sub-loan by PFI

5.3.1. Credit Appraisal

The following is the principles to be adopted by the PFI for instituting the rules and procedures for credit appraisal and sanctioning of Sub-loans under the Project. In cases where the prudential regulations and guidelines issued by BB are amended, the PFI is required to update its rules and procedures accordingly.

Upon receipt of the Application for Sub-loan, the PFI conducts the credit appraisal in accordance with its own guidelines for commercial lending established by following the Prudential Regulations issued by Bangladesh Bank, i.e. the Prudential Regulations for Small Enterprise Financing issued in 2004, the Small and Medium Enterprise Credit Policies and Programmes of 2010 and Prudential Regulations for Banks issued and updated periodically by Bangladesh Bank. The PFI licensed under Non-Bank Financial Institution (NBFI), similarly complies with the Prudential Regulations for NBFI 2010 issued by BB. A thorough credit and risk assessment should be conducted prior to sanctioning the Sub-loan. The results of the assessment should be presented in the Credit Assessment Report within the PFI that originates from the relationship officer in charge and is reviewed by the Credit Risk Management Unit for identification and probable mitigation of risks. The PFI examines and approves the Sub-loan in accordance with the same procedure, standard and quality of credits as the ones for the PFI's normal lending practice for commercial and industrial investment loans. In the credit appraisal process, the Application for Sub-loan shall be evaluated/ assessed by Credit Risk Management Unit. The PFI shall examine risk areas of the Application for Sub-loan including but not limited to the risks associated with; the End-borrower, the industry, the market environment, the supplier/ buyer, the technology adopted, the financial performance, the credit background, the adherence to lending guidelines, the purpose of credit, the project implementation, the security, and social and environmental considerations[12], etc.

5.3.2. Collateral

A special attention is invited to the issue of collateral conditions for the Sub-loan. Under the TSL Project, the requirement of collateral for the Sub-loan rests upon the determination to be made by the PFI in accordance with the PFI's own policy and guidelines and in compliance with the rules and regulations prevailing in Bangladesh. For consideration of the collateral issue, reference can be made to the SME Credit Policy of BB[13]. The BB's policy articulates the practical approach for dealing with the collateral requirement for SME lending. It is to be noted that the prevailing regulation allows the PFI under the scheduled banks to render the collateral free loans up to Tk 1.0

[12] The guidelines applied to the Project is "JBIC Guidelines for Confirmation of Environmental and Social Considerations (April 2002)"
[13] Bangladesh Bank, "Small and Medium Enterprise Credit Policies & Programmes", 2010

million to small enterprises in general and to Tk 2.5 million for women entrepreneurs. The BB's Policy further gives the examples of tools complementing the collateral required in such means as; personal guarantee, hypothecation of products and machineries, group security, social security, etc.

5.3.3. Credit Approval Process

The approval process must reinforce the segregation of the Relationship Officer from the approving authority. The relationship officer should be the owner of the customer relationship and must be held responsible to ensure the accuracy of the entire credit application submitted for approval. The relationship officer must be familiar with the lending guidelines of the financial institution and should conduct due diligence on new borrowers and guarantors. The results of credit assessment should be recommended for approval by the relationship team and forwarded to Credit Risk Management for review and assessment. The credit should subsequently be approved by proper approval committee. The earlier guidelines issued by BB, "Managing Core Risks of Financial Institutions: Credit Risk Management"[14] specifies the Approval Process to be followed by the banks and financial institutions together with the indicative delegated approval authority levels. The documents encompass the five levels of layers for the Application for Loan by the borrower passes through before it will be eventually approved by the financial institution. The layers are conceived to be comprised of; (i) relationship officer/ manager, (ii) zonal/ head office credit risk officer, (iii) head of credit risk management team & head of business units, (iv) credit committee, and (v) executive committee/ board.

5.4. Credit Risk Management at PFI

The Project envisages that the PFI bears the credit risk of the End-borrower and the Sub-loan/ project. The credit risk is the possibility that the borrower or counter party including the guarantor, will fail to meet agreed obligations. The management of the credit risk poses to be the most crucial task for the PFI and, as such, policies and procedures should be solidly established and strictly enforced at the banks and financial institutions. In addition to the compliance with the laws, regulations and regulatory guidelines, the PFI needs to establish a solid system for credit risk management. BB not only regulates the credit risk management among the scheduled banks and NBFIs through establishing rules and regulations but also provides guidelines for the banks and financial institutions to follow in solidifying the credit risk management of the banks and financial institutions. The examples of the guidelines are contained in such materials as the "Prudential Regulations for Small Enterprise Financing (first edition 2004)" and "Managing Core Risks of Financial Institutions: Credit Risk Management" (2005), both issued by BB.

The first of the documents has been promulgated as the regulations relevant to the scheduled banks for lending to small enterprises while containing the development guidelines to be followed by the scheduled banks. The guidelines have been prepared with the aim at assisting the scheduled banks to develop and implement pragmatic and value added products, efficient credit approval and risk management process, sound organization structure, strong credit administration and a robust collection procedure. The development guidelines are composed of the following components; (i) policy guidelines comprised of, product program guidelines, segregation of duties, and credit approval; (ii) procedural guidelines comprised of, approval process, credit administration, risk management, collection & remedial management; (iii) preferred organizational structure & responsibilities.

The second of the documents has been compiled by the Focus Group established within BB to introduce the Industry's Best Practices. The document has been prepared with the aim at providing directional guidelines to the banks and financial institutions so that the banks and financial

[14] Bangladesh Bank, "Managing Core Risks of Financial Institutions: Credit Risk Management", July 2005

institutions will improve risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the on-going improvement of the banks and financial institutions. The document is composed of the components similar to the first documents; (i) policy & strategy guidelines comprised of: lending guidelines, credit assessment & risk grading, approval authority, segregation of duties, and internal audit; (ii) preferred risk management structure & responsibilities comprised of: preferred risk management structure, and key responsibilities; (iii) procedural guidelines comprised of: approval process, credit administration, credit monitoring and credit recovery.

For the implementation of the Project, the PFI is recommended to learn from and follow the guidelines provided by BB for strengthening its institutional capability in credit risk management.

5.5. Compliance with the Eligibility Requirement and Operating Guideline**s**

The eligibility criteria and terms and conditions of On-lending Loan (OLL) and of Sub-loan have been established in prior sections of this Operating Guidelines. The PFI examines the Application and other documents submitted to check whether it complies with the qualifying conditions established by the Project. The conditions for eligibility is prescribed in the Loan Agreement dated May 18, 2011 signed between JICA and the Government of Bangladesh, the Project Memorandum related to the Loan Agreement dated June 15, 2011 and the Minutes of Discussion dated December 9, 2010 signed between the both parties. The PFIs and the End-borrowers are guided to abide by this Operating Guidelines for handling the Sub-projects as well as the Sub-loans.

5.6. Compliance with the Banking Regulations

In conducting the credit appraisal and approval of the Application, the PFI ensures that the Sub-loan examined is in compliance with the prevailing banking rules and regulations imposed by the Government and/or the regulatory authority concerned.

For reference, the Prudential Regulations for Small Enterprise Financing issued by Bangladesh Bank in 2004 enumerates the following regulations as the minimum requirement for small enterprise financing when the bank PFI extends Sub-loan to a small enterprise under the Project;

- ✓ Sources and capacity of repayment and cash flow backed lending,
- ✓ Personal guarantees,
- ✓ Per party exposure limit,
- ✓ Aggregate exposure of a bank/ non-bank financial institution on small enterprise sector[15],
- ✓ Limit on clean facilities,
- ✓ Securities,
- ✓ Loan documentation,
- ✓ Margin requirement,
- ✓ Credit Information Bureau clearance,
- ✓ Minimum condition for taking exposure,
- ✓ Proper utilization of loan,
- ✓ Restriction on facilities to related parties, and
- ✓ Classification and provisioning for assets.

In addition, the PFI under the scheduled banks has to comply with the Prudential Regulation for Banks 2009 of BB for all of their Sub-loans under TSL. The PFI under NBFI license similarly has

[15] The existing policy of Bangladesh Bank requires banks/ financial institutions to maintain the ratio of small enterprise sector (currently a minimum of 40% of the total exposures to SMEs has to be made to small enterprises).

to comply with the Prudential Regulation for NBFI 2010.

5.7. Social and Environmental Consideration

The PFI shall be primarily responsible for examining the social and environmental impacts associated with the Sub-loan/ project in accordance with JBIC Environmental Guidelines[16]. The PFI shall ensure that the End-borrower is required to submit the Environmental Clearance Certificate (ECC) when applying for a Sub-loan, together with all documents required for the issuance of ECC in accordance with the domestic laws and regulations (such as Environmental Impact Assessment (EIA), Initial Environmental Examination (IEE), and so forth). PIU shall examine the social and environmental impacts associated with the Sub-loan/ project in accordance with JBIC Environmental Guidelines, by requiring the PFI to certify that the Sub-loan/ project is compliant with JBIC Environmental Guidelines as well as the domestic laws and regulations and that the PFI has collected all the documents mentioned above when applying for OLL. PIU shall ensure the PFI to be compliant, and the PFIs cause the End-borrower to comply.

PIU shall assess and monitor the social and environmental impacts associated with the Sub-loan/ project, and inform its compliance with JBIC Environmental Guidelines to JICA by submitting On-going Sub-Project Summary Report quarterly. The relevant articles of JBIC Guidelines are quoted for easy reference in ANNEX XI to this Operating Guidelines.

Any Sub-project that is classified in Category A under the JBIC Guidelines shall not be eligible for financing under the Project. Although it is defined that there shall be no Sub-project with significant adverse impact on the environment under the Project and limited negative impacts are expected for the Project, PIU shall immediately report to JICA, and cause the PFI to report to PIU, any negative effect if and whenever it is observed during the implementation of the Sub-project.

5.8. Sub-loan Agreement

The PFI, after completing its process of credit appraisal for the Sub-loan applied, enters into the Sub-loan Agreement between the PFI and the End-borrower. The Sub-loan Agreement shall contain those requirement specified in Sub-section 1.4.5 above.

5.9. Disbursement of Sub-loan

The Project allows the two methods of financing; i.e. (i) Refinancing Method and (ii) Pre-financing Method, depending upon the amount of the Sub-loan to be sanctioned as mentioned in Section 3.4 above. Under the Refinancing Method, the PFI makes disbursement of the Sub-loan prior to submitting its Application for On-lending to PIU, whereas under the Pre-financing Method, the PFI makes disbursement after it receives the disbursement of OLL from PIU, while conducting and approving the Sub-loan prior to applying PIU for On-lending. Should it happen that the disbursements for the fixed investment and for the working capital are to be made separately on different dates, such disbursements shall be treated as the partial disbursements of the single Sub-loan.

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[16] The governing rule for the environmental and social consideration for the Project is; the one adopted by JICA, “Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations”, 2002. The guidelines are accessible through the URL of;
http://www.jica.go.jp/english/publications/jbic_archive/environmental_guidelines/pdf/guide.pdf

6. On-lending Loan by PIU

6.1. Pre-conditions for OLL

In taking steps for PIU to provide funds for OLL under the Project, PIU has to ensure that the following pre-conditions are duly met;

(1) The PFI has been duly accredited and appointed in accordance with the procedures established by the Project; and
(2) The PFI has not failed to make debt servicing without any reason that are deemed justifiable by PIU and has no debt outstanding in arrear at the time of requesting PIU for OLL.
(3) The PFI is compliant with the existing policy of Bangladesh Bank including the ratio to be maintained between small and medium enterprises, and the aggregate funding for small enterprise sector under the TSL Project is not less than the ratio specified from time to time.

6.2. Preparation of Application for On-lending Loan by PFI

The PFI, after completing its process of credit appraisal for the Sub-loan, prepares the Application for On-lending Loan under the TSL Project with specific details of the End-borrower, the Sub-loan/ project and submits it to PIU. The PFI ensures that the information contained in the Application for On-lending Loan is true and correct on the End-borrower, the Sub-project and the Sub-loan.

6.3. Examination of the Application for On-lending Loan by PIU

The PFI is allowed to submit the Application for On-lending Loan twice a month. In case of the frequency of twice a month found infeasible by PIU, PIU may bring the issue to the Steering Committee to decide to reduce the frequency to once a month. The deadline for such submission in each month shall be fixed and announced by PIU in advance.

Upon receipt of the Application for On-lending Loan, PIU examines the contents described in the Application and confirms that the descriptions are in compliance with the eligibility criteria and terms and conditions of the TSL Project, which are summarized to include but not limited to the following areas and items;

- ✓ Definition and eligibility of SME,
- ✓ Eligible business sector,
- ✓ Eligible investment activity,
- ✓ Eligible investment items,
- ✓ Size of Sub-loan,
- ✓ Rate of interest,
- ✓ Repayment term with grace period,
- ✓ Securities (collateral),
- ✓ Financing structure, and
- ✓ Social and environmental consideration.

Given the criteria as above, PIU shall verify at least the followings against the eligibility criteria and the terms and conditions of Sub-loan stipulated in the Operating Guidelines;

i) Legal form of the End-borrower,

ii) Eligibility of the End-borrower,
iii) Eligibility of the Sub-project,
iv) Purpose and usage of funds, and
v) Terms and conditions of the Sub-loan appraised (the ratio of financing, amount, interest rate, maturity, etc.)

Upon confirming the compliance with the eligibility requirement and the terms and conditions of Sub-loan, PIU shall notify the PFI the result of its examination. The period for issuing such Notice should not exceed ten (10) business days from the date of receiving the PFI's Application for On-lending Loan with all valid documents to the date of sending the Notice. In case where the frequency of disbursement is reduced to once a month, the period for issuing the Notices may be extended proportionately.

6.4. Disbursement of OLL

The Project allows the two methods of financing; i.e. Refinancing Method and Pre-financing Method as has been stated in Section 3.4 above, depending upon the amount of the Sub-loan to be sanctioned.

Upon confirming the compliance with the eligibility requirement and the terms and conditions of Sub-loan, PIU releases the funds for OLL to the account designated by the PFI. The release of funds to the designated account of the PFI should be made within ten (10) business days upon receipt of the PFI's Application for On-lending Loan accompanied by the required and valid documents irrespective of the handling methods of Refinancing Method or Pre-financing Method. In case where the frequency of disbursement is reduced to once a month, the period for making disbursement may be extended proportionately. Notwithstanding of the above, for the Sub-loan under Pre-financing Method, PIU shall withhold the funds up till the time PFI shall notify PIU to the effect that the preparation for disbursement of the Sub-loan has finished and the funds to be disbursed under OLL shall be immediately released to the End-borrower. Should it happen that the disbursements for the fixed investment and for the working capital are to be made separately on different dates, such disbursements shall be treated as the partial disbursements of the single OLL.

In order to maintain the records and accounts of OLL disbursement, PIU shall confirm at least the followings;

i) Confirmation of the voucher for the credit entry of the disbursed funds to the PFI's account,
ii) Receiving from the PFI the copy of the End-borrower's receipt of the funds disbursed under Sub-loan addressed to the PFI,
iii) Entry of the date, amount and other particulars of OLL/ Sub-loan disbursement to the OLL/ Sub-loan control book (prospectively equipped in the computerized TSL management system).

6.5. Amendment of Application for On-lending Loan

For the PFI who receives the negative answer of Non-Compliance for the Application for On-lending Loan, PIU shall not release the funds up till the Application for On-lending Loan is amended so that the Application for On-lending Loan to become fully complying with the terms and conditions of the Project. Upon examining the Request for Amendment of the Terms and Conditions of Sub-loan and confirming the Amendment of the Request to be in full compliance, PIU releases the funds for OLL to the account designated by the PFI.

6.6. Suspension of Disbursement under the TSL Project

In case where the OLL and/or the Sub-loan is not deemed in conformity with the eligibility requirements and terms and conditions established for the OLL and Sub-loan under the TSL Project, including but not limited to the eligibility of the End-borrower, investment activities and items, and the accreditation criteria for the PFI, PIU and/or the PFI shall be disallowed and/or suspended to disburse the OLL and/or the Sub-loan by JICA.

7. Debt Servicing, Rescheduling and Event of Default

7.1. Payment of Interest and Principal on OLL

Irrespective of the payment schedules established by the PFI for the Sub-loan, the payment of principal and interest on the OLL is to be made quarterly for the Fixed Investment Loan, whereas the principal of the Working Capital Loan is to be repayable on the due date, while it is renewable up to five years. The PFI is obliged to make payment of principal and interest on the due dates to the account of PIU irrespective of its collection of the principal and interest from the End-borrower.

7.2. Prepayment of Principal

7.2.1. Sub-loan

Upon request by the End-borrower, the PFI may accept the prepayment of the Sub-loan, provided that the request for prepayment is the genuine wish of the End-borrower and not the one coerced by the PFI. The prepayment to be made by the End-borrower shall be appropriated to the installments of principal in the inverse order starting from the last one. The PFI notifies PIU for the prepayment and makes the arrangement for the prepayment of OLL accordingly. The PFI may impose penalty for prepayment such as an Early Settlement Charge on the part of Sub-loan funded by the OLL from PIU, subject to the Sub-loan Agreement entered. The End-borrower shall not be allowed to apply for the Sub-loan under the Project for the same Sub-project.

7.2.2. On-lending Loan

Upon receiving the Report of Prepayment of Sub-loan from the PFI, PIU confirms the reason and conditions of the prepayment is in order and acceptable, PIU sends the Acknowledgement of Notice for Prepayment in which PIU accepts the prepayment of OLL and informs the procedures for the prepayment of OLL. The PIU will not impose any penalty for prepayment of the OLL.

7.3. Rescheduling

7.3.1. Sub-loan

Upon request by the End-borrower, the PFI may examine and, if judged to be appropriate, accept the rescheduling of the Sub-loan at its discretion. The PFI may allow the rescheduling to be done in accordance with the BB's regulatory guidelines. When the rescheduling is made for any of the Sub-loans, the PFI notifies it to PIU and requests PIU to allow the corresponding rescheduling of the OLL.

7.3.2. On-lending Loan

Rescheduling of OLL may be granted by PIU for the Sub-loans facing the difficulties of debt servicing due to the occurrence of events such as; natural calamities, economic disasters, unforeseen occurrences caused by the out-side forces such as the foreign restrictions on Bangladesh trade, force majeure cases, etc. Upon receiving the Request for Rescheduling of OLL from the PFI, PIU examines the reason and conditions necessitating the rescheduling, checks the rescheduled conditions in the light of the eligibility criteria of the Project and verifies the compliance with the prudential regulations concerned.

7.4. Non-payment of Sub-loan on Due Dates

Should the PFI find any of its Sub-loans failing to make payment on due date, the PFI notifies PIU the non-payment of the Sub-loans. The PFI is obliged to make payment of principal and/or interest of OLL irrespective of its receipt of payment from the End-borrower on the Sub-loan. The PFI starts the collection process when the End-borrower has failed to meet one or more contractual payment. The PFI takes steps for recovery of the Sub-loan in accordance with the PFI's own rules and procedures that have been established following the regulations issued by Bangladesh Bank.

8. Fund Management

8.1. Accounts Established

L/A between JICA and GOB stipulates that the Project is required to open and maintain the Special Account, the Project Operating Account and the Revolving Fund Account with BB.

An account called "Special Account" shall be opened being denominated in Japanese Yen and maintained at BB in the name of the Project on behalf of Government of Bangladesh to receive disbursement from JICA under JICA's Special Account Procedure. The amount received at the Special Account shall be transferred to the Project Operating Account from which the disbursement of OLL to the PFI shall be directed.

The Special Account Procedure is adopted in combination with the Statement of Expenditure (SOE) Method for the Project. Under the SOE Method, the expenditures financed from JICA Loan with exception of the fees paid to the consultants shall be entered and audited annually by an independent auditor. The audit report needs to be submitted to JICA annually until five years after completion of the Project. The Request for Replenishment to be submitted to JICA shall accompany the Statement of Expenditure covering the expenditures during the period for which PIU is seeking disbursement and replenishment of the funds.

Another account called "Project Operating Account" shall be opened and maintained at BB in the name of the Project on behalf of Government of Bangladesh to which the disbursed funds from JICA shall be transferred from the Special Account before being spent for disbursement of OLL to the PFIs. The Project Operating Account shall be audited annually by an independent auditor and the Audit Report needs to be furnished to JICA annually in the same manner with the above.

A separate and distinct account called "Revolving Fund Account" shall be opened and maintained at BB in the name of the Project on behalf of Government of Bangladesh to which the principal portion of repayment from PFIs shall be credited for subsequent application for funding the second and succeeding generations of OLLs. The Revolving Fund Account shall be audited annually by an independent auditor and the Audit Report needs to be furnished to JICA annually in the same manner with the above two accounts.

While the Special Account is to be maintained in JPY, the OLLs to PFIs will be made in Bangladesh Taka. The exchange risk between JPY and Taka shall be borne by the Government of Bangladesh (GOB).

8.2. Receipt of Funds from JICA

The procedures required to be taken for receiving the funds from JICA are prescribed in the Special Account Procedure for Japanese ODA Loans which is attached and incorporated as a part of the Loan Agreement.

JICA shall, upon receipt of the request for disbursement in the prescribed format, make the initial disbursement of the Loan in the amount stipulated in the Loan Agreement.

The replenishment of the account shall be made by JICA upon receipt of the request for replenishment accompanied by the following documents;

(1) Statement of Expenditure, and
(2) Supporting documents evidencing each payment and its usage.

8.3. Flow of Funds

The funds received at the Special Account from JICA shall be transferred by PIU under authorization of MOF-BFID to Project Operating Account from which the disbursement of OLL to the PFI shall be made. For making disbursement of OLL to PFIs, PIU debits the Project Operating Account and credit the account designated by the PFI. For disbursing the second and succeeding generations of OLLs, PIU may utilize the funds accumulated in the Revolving Fund Account for disbursement.

In recovery of OLL on due dates, PIU shall inform the PFI of the forthcoming due dates and inform that the recovery shall be made by debiting the PFI's account at BB for the amount coming due on the specified due dates. On due dates notified, Accounts and Budgeting Department of BB shall debit to the account of PFI for the amount instructed by PIU.

8.4. Revolving Fund Account

The funds accumulated in the Revolving Fund Account shall be used for disbursement of the second and succeeding generations of OLL to PFIs. The disbursement of the second and the succeeding generations of OLLs shall be made by debiting the Revolving Fund Account and crediting the PFI's account.

8.5. Management of Funds and Fund Accounts

PIU shall submit to JICA the Statements of the Accounts mentioned above for each of the fiscal year. The Special Account, the Project Operating Account, the Revolving Fund Account and Statement of Expenditure to be prepared for the Expenditures Financed from JICA Loan shall be audited annually by an independent auditor to be appointed and employed by BB at its own cost and the Audit Report shall be furnished to JICA annually within six (6) months after the end of each fiscal year of PIU, i.e. by December of each year, until five (5) years after the completion of the disbursement from JICA.

8.6. Management Information System (MIS)

For the effective control of the operation, PIU is recommended to develop its own management information system. Based on the IT system developed for the management of the OLL, PIU should be able to establish the basic MIS that will keep the management informed of the operation of PIU, the irregularities and the outlook towards the future. The key area for managerial control includes but not limited to; the progress of operation in approving OLLs, the control of irregularities of rejected and/or pending applications for OLL, the monitoring of the monthly performance in new approval, disbursement of funds, recovery of principal and interest, fund flow, and the maturity control of the principal and interest payments.

9. Promotion of the TSL Project

9.1. Publicity Campaign

The success of the Project depends upon the raising of awareness among the SMEs of the country on the availability of the lending facility for financing the long and medium term investment by the SMEs. PIU ensures to implement publicity measures such as conducting awareness raising campaign, distributing of brochure/pamphlets and/or holding of seminars or workshops. BB and the PFIs are expected to participate in such publicity promotional activities.

9.2. Advisory Services

In order to make the Project better accessible and easily available, the PFIs are recommended to establish or assign a particular unit of their branch networks to provide advisory services to the prospective SME clients concerning on how an SME can make use of the funds provided by the TSL Project.

The advisory services that the PFIs are expected to render include but not limited to the following assistances;

- i) Guidance on the basic terms and conditions of financing under the TSL Project,
- ii) Guidance on all the requirement for the End-borrower to follow at one time upon delivery of application form,
- iii) Guidance for filling up the application form,
- iv) Sufficient time allowed for question and answer, and
- v) Consultation on the preparation of the application form.

9.3. Capacity Building of PFIs' Staff

For effective implementation of the TSL Project, the PFI is in need of constant training and improvement of the capacity of its staff for accurate handling of the Sub-projects and Sub-loans.

The PFI shall establish a systematic training program for its staff in charge. PIU may be requested by the PFI for assisting the establishment of such training programs and its execution. PIU may extend assistances to the PFI in such manners as in sending its staff for delivering lecturers, in developing and providing training materials, in extending on-site advices to the branch offices, SME service centers, SME dedicated desks, etc.

10. Monitoring

An effective credit monitoring is a key element that ensures the soundness of the whole performance and leads to the ultimate success of the Project. The institutions concerned are asked to exert the utmost diligence in closely monitoring and following up the progress of the Project.

10.1. Monitoring by PFI

The PFI is responsible for monitoring the progress of the Project at the level of End-borrowers and Sub-loans individually and collectively. The PFI is obliged to monitor closely, the progress of the Sub-loan through site visits and management interviews. For individual Sub-project monitored, the PFI shall report the findings from monitoring activities to PIU whenever deemed necessary by the PFI and/or requested by PIU. In addition, the PFI shall report to PIU regularly the results of its monitoring by creating the reports of On-going Sub-project Summary Report and Status of Current Repayment and Overdue.

10.2. Measurement of Monitoring Indicators

Aside from the monitoring of the individual Sub-project and Sub-loan, the PFI shall collect and report the qualitative and quantitative data of Monitoring Indicators that should be indispensable for PIU to compile the Quarterly Report to JICA.

10.3. Monitoring of Social and Environmental Impact

PIU shall assess and monitor the social and environmental impacts associated with Sub-loan/ project, and inform JICA their compliance with JBIC Environmental Guidelines to JICA by submitting Quarterly On-going Sub-Project Summary Report. Although it is defined that there shall be no Sub-project with significant adverse impact on the environment under the TSL scheme and limited negative impacts are expected for the Project, PIU shall immediately report to JICA, and cause the PFI to report to PIU, any negative effect if and whenever it is observed during the implementation of Sub-project.

10.4. Monitoring by PIU

PIU remains responsible for monitoring the progress of the Project at the level of the PFIs and the PFIs' management of Sub-loans individually and collectively. PIU remains obliged to monitor closely, regularly at pre-determined intervals, the progress of the Project through site visits to the PFIs and the Sub-projects.

10.5. Project Status Report

PIU shall report the findings from monitoring activities in sending JICA and Steering Committee the Quarterly Progress Report whose format is exemplified under the title of Project Status Report in the M/D;

(1) Project Description (Relevance)
- (1)-1. Project Objective,
- (1)-2. Necessity and Priority of the Project, and
- (1)-3. Rationale of the Project Design.

(2) Project Implementation (Efficiency)
- (2)-1. Project Scope,
- (2)-2. Implementation Schedule,
- (2)-3. Project Cost,
- (2)-4. Organization for Implementation,
- (2)-5. Precautions (Measures to be adopted/ points which require special attention), and
- (2)-6. Photographs of Output of the TSL Project.

(3) Benefits Derived from the TSL Project (Effectiveness)
- (3)-1. Operational and Physical Condition of each Facility Developed/ Supplied by the TSL Project,
- (3)-2. Precautions (Measures to be adopted/ points which require special attention),
- (3)-3. Environmental and Social Impacts,
- (3)-4. Qualitative and Quantitative Data of Monitoring Indicators,

(3)-5. Monitoring Plan for the Indicators, and
(3)-6. Achievement of the Project Objective.

(4) Operation and Maintenance (Sustainability)
(4)-1. O&M and Management, and
(4)-2. O&M Cost and Budget.

(5) Evaluation
(5)-1. JICA and Borrower/Executing Agency Performance,
(5)-2. Overall Evaluation, and
(5)-3. Lessons Learnt and Recommendations.

10.6. Monitoring by Steering Committee

The Steering Committee is established at Ministry level for overseeing the implementation of the Project within the SME promotion policy of the Government. Steering Committee discusses and makes decisions on policy issues relevant to the implementation and management of the Project, such as the Operating Guidelines, the Accreditation Criteria of PFIs and their periodical review, the establishment and amendment of terms and conditions of Sub-loans, the feedbacks of lessons learnt and reflection into policy formulation and so on. The Steering Committee will convene at least once every quarter, but can be held on an ad-hoc basis if any issue arises to be discussed immediately.

10.7. Inspection

For the purpose of monitoring of the Project, JICA and/or PIU may initiate visits for inspection to the End-borrowers and/or the Sub-projects. The following sites and parties may be visited for such inspection and relevant records and documents may be examined;

(1) PIU,
(2) PFIs, including their branch offices, and
(3) End-borrowers' office and sites of Sub-projects.

Depending upon the cases, JICA may entrust PIU to conduct inspection on its behalf. PIU and PFIs shall cause necessary arrangement to be appropriately made enabling such inspections to be carried out orderly.

10.8. Impact Assessment

JICA conducts the impact assessment twice under the TSL Project, the first one expected in half way through the implementation period (two and a half year after the commencement) to be conducted by Consultants employed under this Project, and the second one expected as a part of the ex-post evaluation at two years after the completion of the TSL Project. Necessary baseline data will be collected from the ones stored at PIU and the PFI. The PFI is obliged to keep the records, data and information of the Sub-project and the End-borrower including the financial statement until the full discharge of the debt. PIU shall submit to JICA necessary evaluation results prepared by itself including the Operation and Effect Indicators.

11. Reporting

The results of monitoring activities of the PFIs are channeled into PIU for overseeing, reviewing and examining. PIU stores those data and materials for analysis and compilation of its reporting to the parties concerned, including JICA, GOB, etc. JICA requires the following reports to be submitted regularly at the intervals stated. The formats for reporting are included in the TSL

Project Memorandum dated June 15, 2011 signed between JICA and the Government of Bangladesh.

11.1. On-going Sub-Project Summary Report

The PFI shall provide PIU with the Report on Periodical Review of Sub-Project on a quarterly basis (as of the end of March, June, September, and December of each year) within fifteen (15) days after the end of each quarter for preparing PIU's Report "On-going Sub-Projects Summary Sheet" to JICA to be submitted quarterly until five years after the completion of the TSL Project[17].

11.2. Current Repayment and Over-due Status Report

To be submitted annually until five years after the Completion of the Project in the Format "Attachment 24 to M/D". The PFI shall provide PIU with the data required by PIU for preparing PIU's Report to JICA in a similar form within fifteen (15) days after the end of each quarter.

11.3. Quarterly Progress Report

To be submitted quarterly until the Completion of the Project in the form of "Project Status Report (PSR)" shown as Annex 1 of M/D together with the up-to-date list of the accredited PFIs.

11.4. Project Completion Report

To be submitted within six months after the completion of the TSL Project in the form of "PSR" as shown in Annex 1 of M/D.

11.5. Audit Report

Audit shall be made on the "Statements of Special Account, Project Operating Account and Revolving Fund Account" and the "Statements of Expenditures" by an independent auditor and be submitted to JICA annually within six months after the end of each fiscal year until five years after the Completion of the Project in the form as determined by the auditor in reference to the standard format shown in Attachment 27 of M/D.

11.6. PFI Performance Review

To be submitted annually until five years after the completion of the TSL Project in the form in which PIU reports the result of annual review to the Steering Committee.

11.7. PFIs' Annual Reports

Aside from the above-mentioned reporting to the PIU, PFI is requested to submit Annual Reports (including the balance sheet, the profit and loss statement, and the auditor's report) annually until five years after the completion of the TSL Project.

[17] The Completion of Project is defined as (i) the last JICA's disbursement for Two Step Loan under the Loan Agreement of the Project or (ii) the expiry of the Loan Agreement period of the Project, whichever comes first.

PART: II. PROCEDURE

12. Participating Financial Institution (PFI)

12.1. Accreditation Procedure

12.1.1. Application by banks and financial institutions

In order to facilitate PIU to follow the accreditation procedure stated in 12.1.2 below, the Application by banks and financial institutions must include following information and data, inter alia:

a) Copy of License for banking or financing;
b) Audited financial statements for latest three (3) full years, together with the latest Annual Report, which show profitable operation in latest two (2) consecutive years;
c) Copy of Lending Policies, which show commitment to SME lending; and
d) Copy of Risk Assessment Procedures.

The other information and data such as Capital Adequacy Ratio, Non-Performing Loans (NPL) Ratio, CAMELS Rating, and Compliance with Prudential Regulations shall be obtained from other Departments of BB.

12.1.2. Due diligence of banks and financial institutions by PIU

Selection will be made on the basis of the financial information consisting of the information provided in the Application by banks and financial institutions and CAMELS[18] data. The PIU will examine the information and data on an item by item base to each bank whether the information and data would satisfy the level of each item or not. The examination of each item and aggregate assessment shall be performed in accordance with the Accreditation Assessment Form and its attachment form to summarize the financial statements attached herewith as Annex IX and X, respectively. Those applicant banks evaluated as unsatisfactory level in any one of the criteria will automatically lose eligibility for PFI. The PIU may further discuss on unfavorable or adverse information of the applicant, if any, and make decision on whether the applicant be excluded from PFIs or not. The PIU is authorized to accredit PFIs among those which have been qualified in the assessment. The final decision of the PIU will be informed to the applicant together with the evaluation made after JICA concurrence obtained and report to Steering Committee.

If additional banks or financial institutions appear to be included in PFIs during the implementation of the TSL Project, the whole procedures stated above should be exercised for decision-making.

12.1.3. Monitoring and annual review of PFI compliance with accreditation criteria

As part of its monitoring activities, PIU shall request PFIs to submit each PFI's audited financial statements and the financial data required for assessing the PFI, immediately after the completion of auditing every year. Based on the collected financial data plus in-house information and data, PIU shall accredit PFIs in accordance with the accreditation criteria described in Section 4.1 above. The results of accreditation assessment shall be authorized by the Project Director of PIU and reported to the Steering Committee.

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18 "CAMELS" stand for Capital adequacy, Assets quality, Management ability, Earnings, Liquidity and Sensitivity. Therefore CAMELS evaluation has the six components.

13. Sub-loan by PFI

13.1. Application for Sub-loan to be prepared by the End-borrower

For the application to be prepared by the End-borrower, the PFI shall use its own format for Application of Sub-loan. In preparing the formalities required for the Project, the PFI is guided by BB's Small and Medium Enterprise Credit Policies and Programmes in which it is stipulated that each bank/financial institution shall follow a separate business strategy in financing SME loan with least formalities in executing documentation to ensure easy and speedy loan sanction and disbursement process. Any part of the information that is required under the Project but is not required under the prevailing commercial practice must be provided additionally by the End-borrower to PFI. The application shall contain, among others, the information required for the credit appraisal and for examining the compliance of the Sub-loan with the eligibility criteria of the Project. Upon receipt of the Application from the End-borrower, the PFI assigns its own number to each of the Sub-loan which is distinct and self-indicative as the Sub-loan under the Project. The PFI conducts credit appraisal and verification of the compliance, based on the Application submitted by the End-borrower and uses the information submitted for transcription into Form A-1, Application for On-lending (OLL) and Form A-2, Request for Disbursement of OLL for submission and application to PIU for the disbursement of OLL.

13.2. Credit Appraisal and Approval of Sub-loan by PFI

The PFI conducts credit appraisal and verification of the compliance with the banking regulations and with the eligibility requirement established for the Project. The credit appraisal and verification of the compliance with the banking regulations shall be conducted based on the policy and procedural rules established by the PFI whereas the verification of the compliance with the eligibility requirement for the Project shall be conducted based on the Operating Guidelines that demonstrate the relevant terms and conditions to be satisfied by the Sub-loan/project.

13.2.1. Credit Appraisal and Verification of Compliance with the Regulations

The approval process may vary among the PFIs. The typical procedures to be followed for the credit appraisal and verification of compliance with the banking regulation, however, appear to be as follows[19];

1) The End-borrower fills up the Application for Sub-loan with accurate and sufficient information;
2) The End-borrower shall provide CIB undertakings, the financial statements, other information, papers and documents required by the relationship officer in charge at the branch office;
3) The relationship officer in charge at the branch shall evaluate the End-borrower's Application with due diligence, accomplish the relevant tasks and prepares the Credit Assessment Report;
4) The Credit Assessment Report shall be forwarded to zonal office or to head office for review by the Zonal Credit Risk Officer (ZCRO) or Head Office Credit Risk Officer (HCRO);
5) ZCRO or HCRO informs the results of review to the branch office;
6) ZCRO/HCRO supports the Credit Assessment and forward the recommendation for approval to Head of Business Unit (HOBU) and to Head of Credit Risk (HOCR) for

[19] Bangladesh Bank, " Managing Core Risks of Financial Institutions: Credit Risk Management; Industry Best Practices", July 2005

onward recommendation;

7) HOCR informs the result of review to ZCRO;
8) HOCR and HOBU supports the Credit Assessment Report and forward the recommendation for approval to Credit Committee;
9) Credit Committee informs the decision as per the delegated authority to HOCR and HOBU;
10) Credit Committee forwards the Credit Assessment Report to Executive Committee/Board for approval within their respective authority; and
11) Executive Committee/Board informs the decision to HOCR and HOBU.

13.2.2. Verification of the Compliance with the Eligibility Requirement of the Project

The verification of the compliance with the eligibility requirement shall be the task that is unique to the Project. The following procedures shall be adopted by the PFI to ensure the accuracy and correctness of the information provided on the End-borrower, the Sub-project and the Sub-loan submitted to PIU;

1) In filling the Application for Sub-loan, the End-borrower shall provide information required under the Project in addition to what are presented in the procedure described above for credit appraisal;
2) The relationship officer in charge at the branch shall evaluate the End-borrower's Application and the information provided with due diligence, accomplish the relevant tasks and prepares the Eligibility Assessment Report which the PFI should develop according to its own rules and practices; and
3) The Eligibility Assessment Report thus created by the relationship officer shall accompany the Credit Assessment Report through the layers of authority for final approval.

13.3. Compliance with the Eligibility Requirement and the Operating Guidelines

The PFI checks and verifies the contents of the Application for Sub-loan under the Project submitted by the End-borrower against the eligibility requirement and the Operating Guidelines. The result of the verification shall be reflected into the preparation of Form No. A-1, Application for On-lending Loan. The PFI can reflect the compliance of the Sub-loan by entering the check marks into entry boxes for compliance in the Form No. A-1, Application for On-lending Loan. The PFI is recommended to prepare a checklist based on which the Eligibility Assessment Report should be created for verifying the Sub-loan's compliance with the Eligibility Requirement and the Operating Guidelines and to accompany the Credit Assessment Report to be submitted for credit approval to the competent officer of the institution.

13.4. Compliance with the Banking Regulations

In conducting the credit appraisal and approval of the Application, the PFI ensures that the Sub-loan examined is in compliance with the prevailing banking rules and regulations imposed by the Government and/or the regulatory authority concerned. In addition, the PFI under the scheduled banks has to comply with the Prudential Regulation for Banks 2009 of BB for all of their Sub-loans under TSL. The PFI under NBFI license similarly has to comply with the Prudential Regulation for NBFI 2010. The procedures of the PFI established for appraising the normal credits can be adopted for the purpose of the compliance with the Banking Regulations.

13.5. Social and Environmental Consideration

In conducting the credit appraisal of the Application for Sub-loan, the PFI classifies the Sub-project in accordance with the JBIC Environmental and Social Considerations. The category classified shall be reported to PIU in Form A-1, Application for OLL.

Any Sub-project that is classified in Category A under the JBIC Guidelines shall not be eligible for financing under the Project. Any Sub-loan originally classified in Categories other than A and granted with the Sub-loan but was later re-classified as Category A, if it happens to be such case, the Sub-loan has to go through the environmental review process. The End-borrower and related parties must submit Environmental Impact Assessment (EIA) Report for Category A projects. For projects that will result in large-scale involuntary resettlement, basic resettlement plans must be submitted. The PFI is obliged to obtain and confirm the environmental clearance through such measures as; obtaining the Environmental Clearance Certificate (ECC), Initial Environmental Examination (IEE), Environmental Initial Assessment (EIA), etc. The PFI reports PIU the steps and measures taken for such clearance. PIU shall enter into discussion based on the reports submitted by the PFI to cope with the situation. JICA undertakes its environmental reviews based on the EIA and other reports prepared by the End-borrower and submitted through the PFI and PIU.
For the Sub-loan classified as Category B, the scope of environmental review may vary from project to project, but it is narrower than that for Category A projects. JICA undertakes its environmental reviews based on information provided by the End-borrower and related parties. Where EIA procedure has been conducted, the EIA report may be referred to, but it is not a mandatory requirement.
For the Sub-project classified as Category C, environmental reviews will not proceed beyond the screening and no further work will be required.
For the Category FI, there shall be no Sub-project to be classified under the Category, as the Sub-loans ought to be taken by the eligible SMEs and should be classified into any one of Categories A, B or C.

13.6. Sub-loan Agreement

In addition to the normal process of credit appraisal and sanctioning of commercial loans, the PFI confirms and endorses the compliance of the Sub-loan by examining the items falling under the requirement for compliance mentioned above. The result of the examination shall be described in Form A-1, Application for OLL and in Form A-2, Request for Disbursement of OLL. Upon approving the Application for the Sub-loan, the PFI proceeds to the next step of negotiating the loan contract to be mutually signed between the PFI and the End-borrower. The contents of the Sub-loan Agreement shall be in compliance with the specifics described in Section 3.1. The sequential flow of work for the credit approval and disbursement at the PFIs can be referred to the attached Chart A, Workflow for Sub-loan Appraisal and Disbursement <Refinancing Method> and Chart B, Workflow for Sub-loan Appraisal and Disbursement <Pre-financing Method>.

13.7. Disbursement of Sub-loan

Upon signing the loan contract, the PFI makes disbursement of the Sub-loan to the account designated by the End-borrower on the following timing;

13.7.1. Disbursement under Refinancing Method

For the Refinancing Method of OLL, the disbursement of funds should be made to the designated account of the End-borrower after completion of the PFI’s appraisal process and signing of the loan contract but prior to the disbursement of OLL against delivery of title document covenanted.

13.7.2. Disbursement under Pre-financing Method

For the Pre-financing Method, the PFI shall first re-negotiate with the End-borrower for amending the loan contract which might become necessary depending upon the outcome of the examination of OLL made by PIU. Upon signing the loan contract, the PFI shall make disbursement to the End-borrower's account immediately after receiving the funds disbursed by PIU for OLL against delivery of title documents covenanted.

14. On-lending Loan by PIU

14.1. Pre-conditions of OLL

Upon receiving the Application for OLL from the PFI, PIU checks its record to confirm that the PFI duly satisfies the pre-conditions for requesting the Sub-loan to be financed by the Project. The pre-conditions include that the PFI has been duly selected and appointed under the Project and that the PFI has no debt outstanding in arrear at the time of requesting PIU for the OLL. The sequential activities work for approving and disbursing the OLL can be referred to the attached Chart A, Workflow for Sub-loan Appraisal and Disbursement <Refinancing Method> and Chart B, Workflow for Sub-loan Appraisal and Disbursement <Pre-financing Method>.

14.2. Preparation of Application for On-lending Loan by PFI

Based on the Application for Sub-loan and accompanied documents submitted by the End-borrower, the PFI prepares and submits to PIU Form A-1, Application for OLL and Form A-2, Request for Disbursement of OLL. Under the Refinancing Method, the PFI submits Form A-1 and Form A-2 together, whereas under the Pre-financing Method, Form A-1 shall be submitted first and submission of Form A-2 shall be withheld up till the time when the PFI will complete the preparation for the disbursement of the Sub-loan.

Form A-1, Application for OLL should be described with the following fundamental information;

(1) Applicant of the Sub-loan,
(2) Summary of the Sub-project,
(3) Terms and Conditions of the Sub-loan,
(4) Compliance with the Eligibility Requirement under the Project,
(5) Terms and Conditions of the OLL, and
(6) Related Request being made for On-lending Loan under the Project.

Form A-2, Request for Disbursement of OLL should be described with the following information;

(1) Request for Disbursement of the OLL,
(2) Specifics of Partial Disbursements if applicable, and
(3) Account to be credited.

The PFI ensures that the information above provided is true and correct on the End-borrower, the Sub-project and the Sub-loan.

In the Application for OLL, the PFI certifies that the Sub-loan/project is compliant with JBIC Environmental Guidelines as well as the domestic laws and regulations and that in receiving the Application for Sub-loan, the PFI has collected the environment related documents required such as Environmental Clearance Certificate (ECC), Environmental Impact Assessment (EIA), Initial Environmental Examination (IEE), etc.

14.3. Examination of the Application for OLL by PIU

For each and every Form A-1, Application for OLL submitted, PIU first assigns one each unique number as PIU's End-borrower ID Number and PIU's OLL Number. The End-borrower ID

Number is structured as the abbreviated code of the PFI + the branch code + the PFI's borrower code and PIU's OLL Number is as the abbreviated code of the PFI + sequential number of OLL for the PFI + contract year of OLL.

At PIU the Forms A-1, Application for OLL and A-2, Request for Disbursement of OLL shall be received at its TSL Administration and Appraisal Section, the officer in charge at the section shall check and verify the Sub-loan's compliance with eligibility criteria. After examining and verifying the eligibility, the officer in charge shall submit the result to the appropriate authority for approval through the Project Director. The examination and approval process shall accompany, among others, the following sequential steps of actions;

[Process Flow at TSL Administration and Appraisal Section of PIU]

- ✓ Receiving the Application for On-lending Loan and Request for Disbursement of OLL,
- ✓ Assigning PIU's number to each Application,
- ✓ Entering the Application into the OLL Control Book,
- ✓ Examining the compliance with the eligibility criteria,
- ✓ Submitting the result of examination to the appropriate authority through the Project Director,
- ✓ Obtaining approval of the appropriate authority on the OLL and disbursement of the funds,
- ✓ Entering the approval date into the OLL Control Book,
- ✓ Preparing the Notices of Results to PFIs,
- ✓ Preparing the letter instruction to Accounts and Budgeting Department for fund transfer by the Desk Officer,
- ✓ Presenting the letter instruction by the Officer in charge to the Project Director for approval,
- ✓ Ensuring the deposit of Demand Promissory Note duly signed by PFI at PIU,
- ✓ Delivering the letter instruction to Accounts and Budgeting Department, and
- ✓ Entering the disbursement date and amount into the OLL Control Book.

Upon confirming the compliance with the eligibility requirement and the terms and conditions of Sub-loan, PIU shall notify the PFI the result of its examination by sending Form B-1.1, Notice of Compliance of the Application for OLL under Pre-financing Method or Form B-1.2, Notice of Non-compliance of the Application for OLL under both Pre-financing and Refinancing Methods. For positive result of the examination under the Refinancing Method, the notice of compliance shall not be sent, instead the PFI shall be advised such result by the Notice of Disbursement of OLL (Form B-2).

14.4. Disbursement of OLL

Upon confirming the compliance with the eligibility requirement, PIU releases the funds for OLL to the account designated by the PFI. PIU notifies the completion of disbursement of OLL to the PFI by sending Form B-2, Notice of Disbursement. For the Sub-loan under Pre-financing Method, PIU shall withhold the funds up till the time PFI shall notify PIU in using From A-2, Request for Disbursement of OLL to the effect that the preparation for disbursement of the Sub-loan has finished and the funds to be disbursed under OLL shall be immediately released to the End-borrower.

The PFI, receiving the funds in disbursement of OLL, acknowledges its receipt of disbursed funds to PIU by sending Form A-3, Receipt of Disbursed Funds under OLL for both the Refinancing Method and the Pre-financing Method. Under Pre-financing Method, the PFI notifies PIU its completion of disbursement of Sub-loan to the End-borrower after the receipt of the disbursed funds of OLL and its disbursement under Sub-loan by sending Form A-4, Report on Disbursement of Sub-loan under Pre-financing Method.

In order to maintain the records and accounts of OLL disbursement, PIU shall confirm at least the followings;

i) Confirmation of the voucher for the credit entry of the disbursed funds to the PFI's account shall be obtained from the Accounts and Budgeting Department,
ii) Receiving from the PFI the copy of the End-borrower's receipt of the funds disbursed under Sub-loan addressed to the PFI, being accompanied to the Form A-2, Request for Disbursement of OLL in case of the OLL provided under the Refinancing Method and to the Form A-3, Receipt of Disbursed Funds under OLL in case of the OLL provided under the Pre-financing Method,
iii) Entry to be made at PIU of the date, amount and other particulars of OLL disbursement to the OLL control book (prospectively equipped in the computerized TSL management system).

14.5. Amendment of Request for On-lending Loan

For the PFI who receives the negative answer by Form B-1.2, Notice of Non-Compliance of the Application for OLL, PIU shall not release the funds until the time when the Application for OLL is amended in using Form A-5, Request for Amendment of the Terms and Conditions of OLL and Sub-loan/project and the Request becomes fully complying with the terms and conditions of the Project. Upon examining the Request for Amendment of the Terms and Conditions of Sub-loan, PIU notifies the PFI its result by sending Form B-3, Notice of Acceptance/Non-Acceptance of the Request for Amendment. Upon sending the affirmative notice, PIU releases the funds for OLL to the account designated by the PFI. For the Pre-financing method, the release of the funds shall be made by PIU to the PFI upon receipt of the notification from the PFI informing its readiness to disburse the funds by using the Form A-2 Request for Disbursement of OLL.

The Request for Amendment of the Terms and Conditions of Sub-loan shall be received at its TSL Administration and Appraisal Section, The sequential steps of process shall be followed in a same manner as has been mentioned above for the new application with exception of the assignment of PIU's number for the Sub-loan. The Request for Amendment shall be processed under the number originally assigned to the Sub-project at its first submission. Other steps of the sequence shall remain unchanged.

For the Pre-financing Method, there may be a case in which PIU finds a necessity to revise the terms and conditions once approved for OLL before its disbursement. PIU may send Form B-4, Notice of Change of the Terms and Conditions Approved for OLL to the PFI. Upon obtaining the consent of the End-borrower, the PFI proceeds to amend the terms and conditions of the Sub-loan accordingly.

The PFI may use Form A-5, Request for Amendment of the Terms and Conditions of OLL and Sub-loan/project for both cases of Refinancing Method and Pre-financing Method.

15. Debt Servicing, Rescheduling and Event of Default

15.1. Notice of Due Dates on On-lending Loan

The PFI is obliged to make payment of principal and interest on the due dates to the account designated by PIU irrespective of its receipt of the Notice of Due Dates from PIU and its collection of the principal and interest from the End-borrower. The collection of the OLLs shall be handled by the Treasury and Recovery Section of PIU. The due dates of the OLLs are supervised by the section for timely and effective management by using the Form D-11.1, Due Dates of Principal & Interest in Next Month and Form D-11.2, Due Dates of Principal and Interest in the Month after Next. The IT system shall generate the recovery information report periodically according to which the Officer in charge at the section shall be able to take the actions for recovery without fail. At around one month prior to the due dates of the principal and/or interest of OLL, PIU sends Form B-5, Notice of Due Dates of Principal and Interest to the PFI for reminding the PFI of the up-coming due dates. The schedule of recovery shall be informed to the Accounts and Budgeting Department for vigilance. The sequential activities and flow of funds for debt servicing of the OLL can be referred to the attached Chart C, Workflow for Debt Servicing,

15.2. Payment of Interest and Principal on On-lending Loan

Upon receipt of payment by the PFI, PIU notifies its receipt of payment by sending Form B-6, Receipt of Payment of Principal and/or Interest. The recovery process shall accompany, among others, the following sequential steps of actions;

[Process Flow at Treasury and Recovery Section of PIU]

- ✓ Monitoring the maturities of the OLLs,
- ✓ Sending the Notice of Due Dates to PFI and its copy or summary sheet to the Accounts and Budgeting Department,
- ✓ Preparing the letter instruction to Accounts and Budgeting Department for disposal of received funds to the effect that the principal portion shall be credited to Revolving Fund Account, 1/5th of the interest received to BB's Revenue Account and the remaining portion of the interest to MOF's account,
- ✓ Approval and sending of the letter instruction for disposal by the Project Director to the Accounts and Budgeting Department,
- ✓ Receiving the notice from the Accounts and Budgeting Department for in-coming transfer of funds,
- ✓ Confirming the accuracy of the fund transfer,
- ✓ Report to the Project Director for recovery,
- ✓ Preparing the Form B-6, Receipt of Payment of Principal and Interest,
- ✓ Approval of the receipt of funds by the Project Director,
- ✓ Sending the Form B-6, Receipt of Payment of Principal and Interest to the PFI, and
- ✓ Entering the recovery date and amount to the OLL Control Book.

15.3. Prepayment of Principal

15.3.1. Sub-loan

The PFI notifies PIU prepayment of Sub-loan by sending Form A-6, Report of Prepayment of Sub-loan. The sequential activities work for prepayment of the OLL can be referred to the attached Chart D, Workflow for Prepayment.

15.3.2. On-lending Loan

Upon receiving Form A-6, Report of Prepayment of Sub-loan, PIU confirms the reason and conditions of the prepayment is in order and acceptable, PIU sends Form B-9, Acknowledgement of Notice on Prepayment in which PIU accepts the prepayment of OLL and instructs the PFI on the manner of prepayment. Upon receipt of the funds for prepayment at the designated account, PIU sends the PFI Form B-10, Receipt of Prepayment and Claim for Accrued Interest in which PIU notifies the PFI receipt of the prepaid funds of OLL and the amount of interest claimed for the prepaid OLL. Alternatively, if the date of prepayment of OLL can be fixed in advance, the claim on interest can be included in the Form B-9, Acknowledgement of Notice on Prepayment for quicker settlement.

At PIU, the Form A-6, Report of Prepayment of Sub-loan shall be received at its Treasury and Recovery Section. The prepayment shall be handled by the Officer in charge at the section in similar steps as the scheduled payment. Instead of the advance information on the up-coming repayment, the section shall inform the Accounts and Budgeting Department for the notified prepayment whenever informed by the PFI. The steps to be taken after the receipt of the incoming transfer shall be the same as in case of the scheduled repayment.

15.4. Rescheduling

15.4.1. Sub-loan

The PFI notifies PIU rescheduling of the Sub-loan and requests PIU to allow corresponding rescheduling of the OLL by sending Form A-8, Request for Rescheduling of OLL. The sequential activities work for rescheduling of the OLL can be referred to the attached Chart E, Workflow for Rescheduling,

15.4.2. On-lending Loan

Upon receiving Form A-8, Request for Rescheduling of OLL, PIU examines and confirms the reason and conditions of the rescheduling in view of the eligibility criteria of the Project and compliance with the Prudential Regulations concerned.

At PIU the Forms A-8, Request for Rescheduling of OLL shall be received at its TSL Administration and Appraisal Section, the officer in charge at the section shall check and verify the Sub-loan's compliance with eligibility criteria. After examining and verifying the eligibility, the officer in charge shall submit the result to the appropriate authority for approval through the Project Director. The examination and approval process shall accompany, among others, the following sequential steps of actions;

[Process Flow at TSL Administration and Appraisal Section of PIU]

- ✓ Receiving the Request for Rescheduling from the PFI,
- ✓ Entering the Request into the OLL Control Book,
- ✓ Examining the compliance with the eligibility criteria,
- ✓ Submitting the result of examination to the appropriate authority through the Project Director,
- ✓ Obtaining approval of the appropriate authority on the rescheduling,
- ✓ Entering the approval date into the OLL Control Book,
- ✓ Preparing the Notices to PFIs, and
- ✓ Entering the rescheduled maturity and installment schedule into the OLL Control Book.

After confirming the eligibility compliance and regulatory clearance, and the reschedule is approved by the competent authority, PIU sends Form B-11, Approval for Rescheduling of OLL to PFI.

15.5. Non-payment on Due Dates

15.5.1. Sub-loan

Should the PFI find any of its Sub-loans failing to make payment on due date, the PFI notifies PIU the non-payment of the Sub-loan by sending Form A-7, Notice of Non-payment of Sub-loan. The Notice shall be received at Treasury and Recovery Section of PIU. The non-payment shall be reported immediately to the appropriate authority through the Project Director. The process shall accompany, among others, the following sequential steps of actions;

[Process Flow at Treasury and Recovery Section of PIU]

- ✓ Receiving the Notice of Non-payment from the PFI,
- ✓ Submitting the report of non-payment of Sub-loan to the appropriate authority through the Project Director,
- ✓ Searching PIU file if there exists any Sub-loan outstanding for the same End-borrower reported for non-payment,
- ✓ Hearing the measures for recovery from the PFI and urging the PFI to take appropriate actions, and
- ✓ Providing a caution notice to the other PFIs lending to the same End-borrower, if found through the search efforts, of the non-payment at the first PFI.

16. Fund Management

16.1. Accounts Established

The procedure to handle the Special Account is stipulated in the "Special Account Procedure" attached to the Loan Agreement under Schedule 7. The Special Account shall be audited annually by an independent auditor to be appointed and employed by BB at its own cost and the Audit Report needs to be furnished to JICA annually within six months after the end of each year, i.e. by December of each year until five years after the completion of the Project.

Another account called "Project Operating Account" shall be opened and maintained at BB in the name of the Project on behalf of Government of Bangladesh to which the disbursed funds from JICA shall be transferred from the Special Account before being spent for disbursement of OLL. The Project Operating Account shall be audited annually by an independent auditor to be appointed and employed by BB at its own cost and the Audit Report needs to be furnished to JICA annually within six months after the end of each year, i.e. by December of each year until five years after the completion of the Project.

A separate and distinct account called "Revolving Fund Account" shall be opened and maintained at BB in the name of the Project on behalf of Government of Bangladesh to which the principal portion of repayment from the PFIs shall be credited for subsequent application for funding the second and succeeding generations of OLLs. The Revolving Fund Account shall be audited annually by an independent auditor to be appointed and employed by BB at its own cost and the Audit Report needs to be furnished to JICA annually within six months after the end of each year, i.e. by December of each year until five years after the completion of the Project.

16.2. Receipt of Funds from JICA

For requesting the initial disbursement under the Project, PIU shall submit the Request for Initial Disbursement as per Form JICA-RID attached to the Schedule 7 of the Loan Agreement. JICA shall, upon receipt of the request for disbursement in the prescribed format, make initial disbursement of the Loan in the amount not exceeding one billion Japanese Yen as stipulated in the Loan Agreement.

For requesting the replenishment of funds for the Special Account, PIU shall submit the Request for Replenishment as per Form JICA-RPM attached to the Schedule 7 of the Loan Agreement. Replenishment of the account shall be made by JICA upon receipt of the request for replenishment accompanied by the following documents;

(1) Statement of Expenditure as per Form C-2, and
(2) Supporting documents such as the copies of the receipts issued by the PFI and by the End-borrower evidencing each payment and its usage.

Towards the latter part of the replenishment phase of the Account, there will be a stage of operation called the “recovery phase” under which JICA will reduce the percentage of replenished funds against the amount stipulated in the Request for Replenishment. Through the operation, the Special Account Procedure intends to match the cumulative total amount of disbursements including the initial disbursement with the cumulative total amounts of the expenditures to be expressed in the column No.12, “Disbursed Amount of PIU’s OLL” of SOEs.

16.3. Flow of Funds

The funds received at the Special Account from JICA shall be transferred by PIU to Project Operating Account from which all the disbursement of OLL shall be made. For making disbursement of OLL to the PFIs, PIU debits the Project Operating Account and credit the account designated by the PFI. For disbursement of the second and subsequent generations of OLLs, PIU shall utilize the funds accumulated in the Revolving Fund Account for disbursement to the PFIs.

In recovery of the OLL extended, Form B-5, Notice of Due Dates of Principal and/or Interest shall be sent by PIU to the PFI prior to the due date in which PIU shall inform the PFI that the PFI’s account at BB shall be debited for the amount coming due on the specified due dates. On the due date notified, Accounts and Budgeting Department of BB shall debit the account of the PFI for the amount instructed by PIU. Out of the proceeds collected from the PFI’s account, the Accounts and Budgeting Department shall credit the principle portion of the proceeds to the Revolving Fund Account whereas the interest portion is split into two parts, out of which 1/5th shall be credited to BB’s Revenue Account and 4/5th to MOF’s account.

16.4. Management of Funds and Fund Accounts

PIU shall submit to JICA the Statement of the Accounts mentioned above for each of the fiscal year. The formats are exemplified as Form C-1, Statements of Special Account, Project Operating Account, and Revolving Fund Account and Form C-2, Statement of Expenditure. The Special Account, the Project Operating Account, the Revolving Fund Account and Statement of Expenditure to be prepared for the expenditures financed from JICA Loan shall be audited annually by an independent auditor. The standard formats of audit report as required by JICA for the Special Account, Project Operating Account, Revolving Fund Account and Statement of Expenditure are attached to L/A and M/D.

16.5. Management Information System (MIS)

For the effective control of the operation, PIU is recommended to develop its own management information system. Based on the IT system developed for the management of the OLL, PIU should be able to establish the basic MIS and its outputs which include but not limited to the following reports;

- ✓ Form D-1: Report of New On-lending Loan Registered,
- ✓ Form D-2: On-lending Loan Status,
- ✓ Form D-3.1: List of Applications for OLL Rejected,
- ✓ Form D-3.2: List of Pending Applications for OLL,
- ✓ Form D-3.3: List of Rescheduled OLLs and Sub-loans,
- ✓ Form D-3.4: List of Sub-loans in Arrear,
- ✓ Form D-4: Monthly Activity Report: New Approval of OLL,
- ✓ Form D-5: Monthly Activity Report: Disbursement of OLL,
- ✓ Form D-6: Monthly Activity Report: Recovery of Principal under OLL,
- ✓ Form D-7: Monthly Activity Report: Interest Received under OLL,
- ✓ Form D-8: Monthly Activity Report: Fund Flow,
- ✓ Form D-9: Monthly Performance of OLL,
- ✓ Form D-10: Due Date Table of OLL,
- ✓ Form D-11.1: Due Dates of Principal and Interest in Next Month,
- ✓ Form D-11.2: Due Dates of Principal and Interest in the Month after Next,
- ✓ Form D-12.1: PFI-wise Due Dates of Principal and Interest in Next Month, and
- ✓ Form D-12.2: PFI-wise Due Dates of Principal and Interest in the Month after Next.

The management of PIU should be able to use the Forms of D-1, D-2, D-3.1 and D-3.2 above to monitor the actual progress of approval process of the OLL. The Applications for OLL that have been rejected shall be reflected into the Form D-3.1 and the Applications whose processing are pending shall be reflected into the Form-3.2. The management should keep their close eye on those irregular Applications to monitor their progress for recovery and for disbursement. The performance of OLLs can be monitored by having the Forms of D-4 through D-9. The Forms will keep the management well informed of the monthly progress and performance in OLL, including the new approval of OLL, the disbursement made during the month, the recovery of the principal, the collection of interest, the fund flow and the balance of OLL in the aggregate figure. The collection of the principal and interest in the future shall be supported by the Forms D-10 through D-12.2. The Form D-10, Due Date Table of OLL should form the basis for the maturity and collection control, based on which the Forms of D-11.1 and D-11.2, Due Dates of Principal and Interest are produced for the use of PIU for effective maturity control and the Forms D-12.1 and D-12.2, PFI-wise Due Dates of Principal and Interest are produced for the monitoring of PFIs for their debt servicing. PFI-wise Due Dates of Principal and Interest can be used as the basis for PIU's issuing the Form B-5, Notice of Due Dates of Principal and Interest.

17. Promotion of the Project

17.1. Publicity Promotion

PIU takes a leadership role in developing the publicity promotion. It will organize various means of promotion including but not limited to; posters, booklet, brochure, video, newspaper advertisement, TV run messages, etc. PIU, with the assistance of the consultants, plans, prepares and executes the publicity promotion in active utilization of the means and media discussed. PIU will consider and discuss the publicity promotion with the parties concerned for SME promotion including but not limited to; MOI, MOC, FBCCI, SMEF, etc. in seeking the opportunities of co-working for promoting the Project. PIU will consider to mobilize BB's regional branch offices to contact with local business associations for planning and implementing the promotional events. Participation of the PFIs in such activities is expected.

17.2. Advisory Services

The advisory services that the PFIs are expected to render to the End-borrowers and potential beneficiaries of the Project include but not limited to the following;

i) Guidance on the basic terms and conditions of financing under the Project,
ii) Guidance on all the requirement for the End-borrower to follow at one time upon delivery of application form,
iii) Guidance for filling up the application form, and
iv) Sufficient time allowed for preparation, question and answer.

17.3. Capacity Building of PFIs' Staff

PIU may be requested by the PFI for assisting the establishment of training programs and its execution. PIU may extend assistances to the PFI in such manners as; holding seminars/workshop for the Project inviting the PFIs' staff; sending lecturers to the training program that the PFI organizes; developing and providing training materials; extending on-site advices to the branch offices, SME dedicated desks, SME Service Centers, etc. For general training of SME finance, Bangladesh Institute of Bank Management (BIBM) and Bangladesh Bank Training Academy (BBTA) are providing several courses in SME financing which can be availed by the PFI for strengthening its institutional capacity in SME lending. The PFI is requested to report the performance of the capacity building activities when submitting Form C-4.2, PFI Report on Monitoring Indicators.

18. Monitoring

18.1. Monitoring by PFI

The PFI is obliged to monitor closely, the progress of the Sub-loan/project through site visits and management interviews, in particular, focusing on the following aspects of the Sub-project;

1) Progress of Individual Sub-project
   - ✓ Progress and completion of the construction of the Sub-project,
   - ✓ Proper usage of the Sub-loan proceeds,
   - ✓ Construction cost and period,
   - ✓ Orderly start-up and performance in operation,
   - ✓ Sufficiency in capability of manufacturing, marketing, operation,
   - ✓ Development of market conditions,
   - ✓ Sales turnover,
   - ✓ Cash flow,
   - ✓ Number and change in employment, and
   - ✓ Social and Environmental Protection.

2) Financial Conditions of End-borrower
   - ✓ Overall business performance of the enterprise,
   - ✓ Overall cash flow of the enterprise,
   - ✓ Assets and liabilities,
   - ✓ Trend of profits,
   - ✓ Sufficiency in working capital,
   - ✓ Constraints in financing,
   - ✓ Difficulty in debt servicing, and

- ✓ Change in overall employment.

3) Overall Soundness of the Sub-loan Portfolio
    - ✓ Number of Sub-loans approved,
    - ✓ Amount disbursed in Sub-loans,
    - ✓ Amount collected from Sub-loans,
    - ✓ Sub-loans rescheduled,
    - ✓ Sub-loans in arrear,
    - ✓ Sub-loans in default, and
    - ✓ Sub-loans classified as non-performing loan.

For individual sub-project monitored, the PFI shall report the findings from monitoring activities in sending Form A-9, Monitoring Report of Sub-project whenever a material deviation from the original project plan in the monitoring items described above is identified or anticipated. In addition, the PFI shall submit Form C-3.2, PFI Report on On-going Project Summary containing all of the PFI's Sub-loans outstanding at the end of the quarter to PIU within fifteen (15) days after the end of each quarter. In addition, the PFI shall report the status of current repayment and overdue annually by submitting Form C-5.2, PFI Report on Current Repayment and Overdue Status to PIU within fifteen (15) days after the end of each year.

18.2. Measurement of Monitoring Indicators

The PFI shall collect the data specified in Form C-4.2, PFI Report on Monitoring Indicators, for the baseline and actual achievement and submit to PIU for each quarter up till five (5) years after the completion of the Project within fifteen (15) days after the end of the quarter. The data required as the Monitoring Indicators are comprised of the following items;

1) Operation and Effect Indicators
    - ✓ Sales turnover of the benefited SMEs,
    - ✓ Profit of the benefited SMEs,
    - ✓ Total loan outstanding of the PFIs to SMEs, and
    - ✓ Ratio of SME lending in total loan outstanding of the PFIs.

2) Supporting Indicators
    - ✓ Number of Sub-loan cases disbursed under the Project,
    - ✓ Cumulative amount of Sub-loans disbursed under the Project,
    - ✓ TSL loan (Sub-loan) outstanding of the PFIs to SMEs,
    - ✓ TSL (Sub-loan) ratio in total SME loan outstanding of the PFIs,
    - ✓ Total outstanding of the PFIs' medium and long term lending to SMEs,
    - ✓ Ratio of the medium and long term lending in total loan outstanding of the PFIs,
    - ✓ Collection ratio of TSL (Sub-loan),
    - ✓ Ratio of the amount of Sub-loans in arrear in total Sub-loan outstanding (infection ratio),
    - ✓ Ratio of the numbers of Sub-loans in arrear in total number of Sub-loans,
    - ✓ Number of workers employed by the benefited SMEs, and
    - ✓ Number of seminars held by PIU to the PFIs.

The PFI shall compile the report of its performance for the Monitoring Indicators and submit to PIU within fifteen (15) days after the end of each quarter.

18.3. Monitoring of Social and Environmental Impact

The PFI is held responsible for monitoring the social and environmental impact of the Sub-project. The result of the monitoring by the PFI shall be reported to PIU by the periodical as well as the ad-hoc report. The periodical reporting shall be made by submitting the Form C-3.2, PFI Report on On-going Sub-project Summary within which the columns are assigned for reporting of the Environmental Category of the Sub-project based on JICA's Environmental and Social Guidelines and the adverse impact, if any, that has been observed.

18.4. Monitoring by PIU

PIU shall execute following courses of actions to discharge its monitoring obligation under the Project;

1) To collect the reports generated by the PFIs in Forms C-3.2, PFI Report on On-going Sub-project Summary, C-4.2, PFI Report on Monitoring Indicators and C-5.2, PFI Report on Current Repayment and Overdue Status,
2) To aggregate the collected data and grasp the total picture on the progress of the Project,
3) To analyze the compiled data,
4) To conduct field survey/inspection of the PFIs and the Sub-projects, should it be found necessary by PIU,
5) To grasp and assess the performance of the PFIs individually,
6) To identify weakness and/or problems,
7) To develop the measures for solution and/or improvement,
8) To prepare the Project Status Report to be submitted to JICA quarterly, and
9) To give guidance to the PFIs.

18.5. Periodical Reporting

PIU shall report the findings from monitoring activities in sending JICA and Steering Committee the Quarterly Progress Report whose format is exemplified under the title of Project Status Report in the M/D. For compilation of the Project Status Report, PIU shall require the PFI to submit periodically the pertinent data and information in the forms of Form C-3.2, PFI Report on On-going Sub-project Summary, Form C-5.2, PFI Report on Current Repayment and Overdue Status, Form C-4.2, PFI Report on Monitoring Indicators and other ones that would be reasonably requested.
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18.6. Monitoring by Steering Committee

Steering Committee convenes at least quarterly and discusses policy issues relevant to the implementation and management of the Project, including but not limited to the following;

- ✓ Approval of the Operating Guidelines,
- ✓ Approval of the Accreditation Criteria of PFIs,
- ✓ Review of the performance of the Project,
- ✓ Review of the PFIs' performance, and
- ✓ Discussion of issues that may arise requiring the Committee's judgment, including the frequency of disbursement of OLL.

The approval and decision above made shall be sent to JICA for concurrence before such will be put into operation. The Committee and the Committee member shall be informed of the feedbacks of lessons learnt that should be used for reflection into the policy formulation in the areas related to the Project, etc.

18.7. Inspection

The inspection may be initiated by JICA, MOF-BFID, BB and/or PIU. It will involve physical visits to the End-borrower and to the Sub-project and therefore, the PFI and the End-borrower shall be required to accept such and to extend cooperation required by the Inspecting Institution and its Inspector. No standard procedure is established for executing the inspection.

18.8. Impact Assessment

For meeting the requirement of impact assessment by JICA, necessary baseline data will be collected from the ones stored at PIU and the PFI. The PFI is obliged to keep the records, data and information of the Sub-loan/project and the End-borrower including the financial statement until the full discharge of the debt. PIU shall submit necessary evaluation results prepared by itself to JICA in support of the impact assessment including the Operation and Effect Indicators.

19. Reporting

JICA requires the following reports to be submitted regularly at the intervals stated. The formats for reporting are included in the Project Memorandum dated June 15, 2011 signed between JICA and the Government of Bangladesh. The flow of work for monitoring and reporting can be referred to the attached Chart F, Workflow for Monitoring,

19.1. On-going Sub-projects Summary Report

To be submitted quarterly until five years after the Completion of the Project in the Format "Attachment 23 to M/D"[20]. The PFI shall provide PIU with the pertinent data required by PIU for preparing the report to JICA in the Form C-3.2, PFI Report on On-going Sub-project Summary, within fifteen (15) days after the end of each quarter.

19.2. Current Repayment and Over-due Status Report

To be submitted annually until five years after the Completion of the Project in the Format "Attachment 24 to M/D". The PFI shall provide PIU with the pertinent data required by PIU for preparing the report to JICA in the Form C-5.2, PFI Report on Current Repayment and Overdue Status, within fifteen (15) days after the end of each quarter.

19.3. Quarterly Progress Report

To be submitted quarterly until the Completion of the Project in the form of "Project Status Report (PSR) stipulated above and shown as Annex 1 of M/D" together with the up-to-date list of accredited PFIs.

19.4. Project Completion Report

To be submitted within six months after the Completion of the Project in the form of "Project Status Report as shown in Annex 1 of M/D".

19.5. Audit Report

The Audit shall be made on the Statement of Special Account, Project Operating Account,

[20] The Completion of Project is defined as (i) the last JICA's disbursement for Two Step Loan under the Loan Agreement of the Project or (ii) the expiry of the Loan Agreement period of the Project, whichever comes first.

Revolving Fund Account and Statement of Expenditures by an independent auditor and be submitted to JICA annually within six months after the end of each fiscal year until five years after the Completion of the Project. To be submitted quarterly until five years after the Completion of the Project in the form as determined by the auditor in reference to the standard format being attached to L/A in Attachment I and V, and shown in Attachment 27 of M/D.

19.6. PFI Performance Review

To be submitted annually until five years after the Completion of the Project in the form which PIU reports the result of annual review to the Steering Committee.

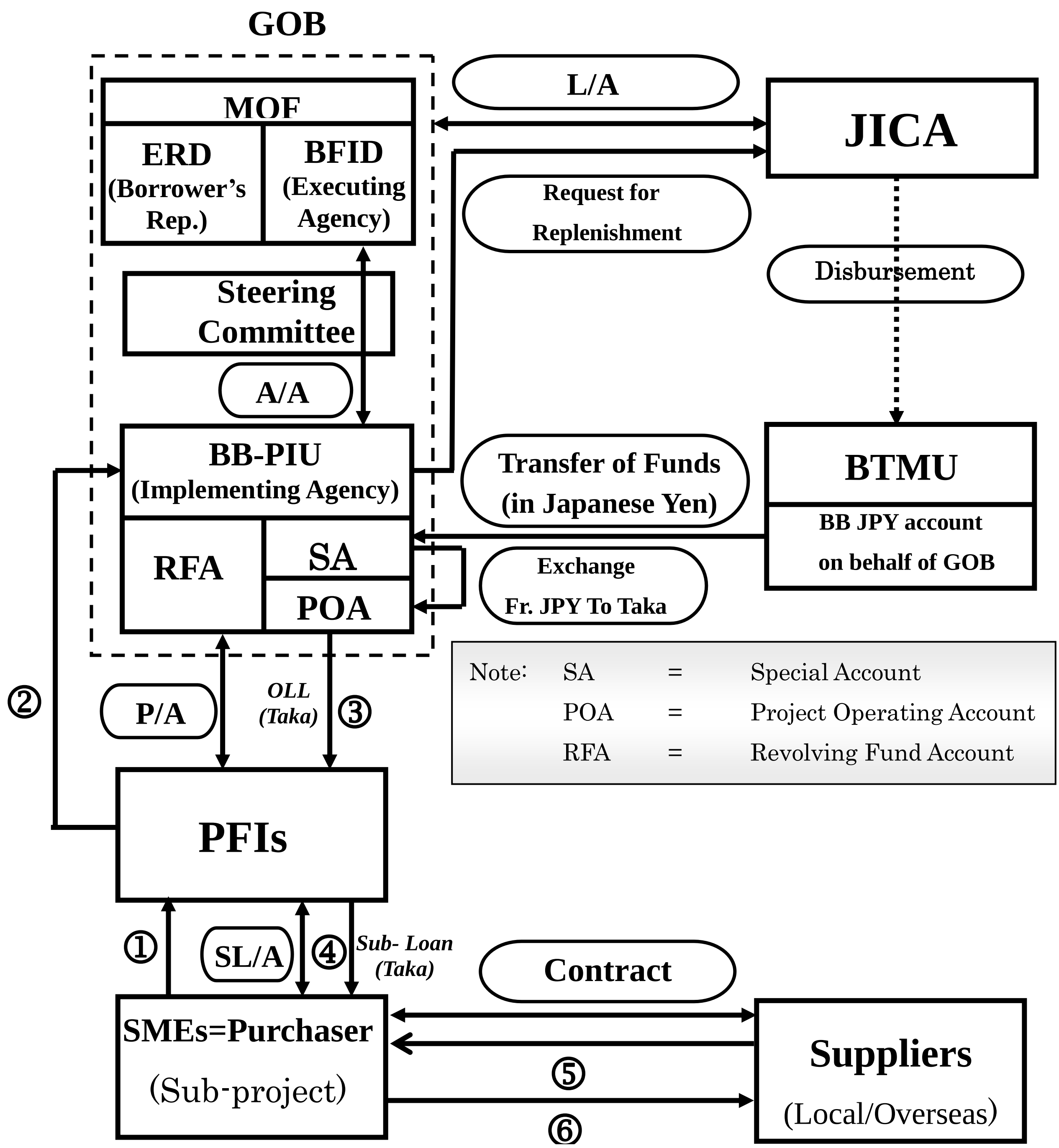
19.7. PFIs' Annual Reports

To be submitted annually until five years after the Completion of the Project.

ANNEX I: Requirement for Modification of Policy Guidelines

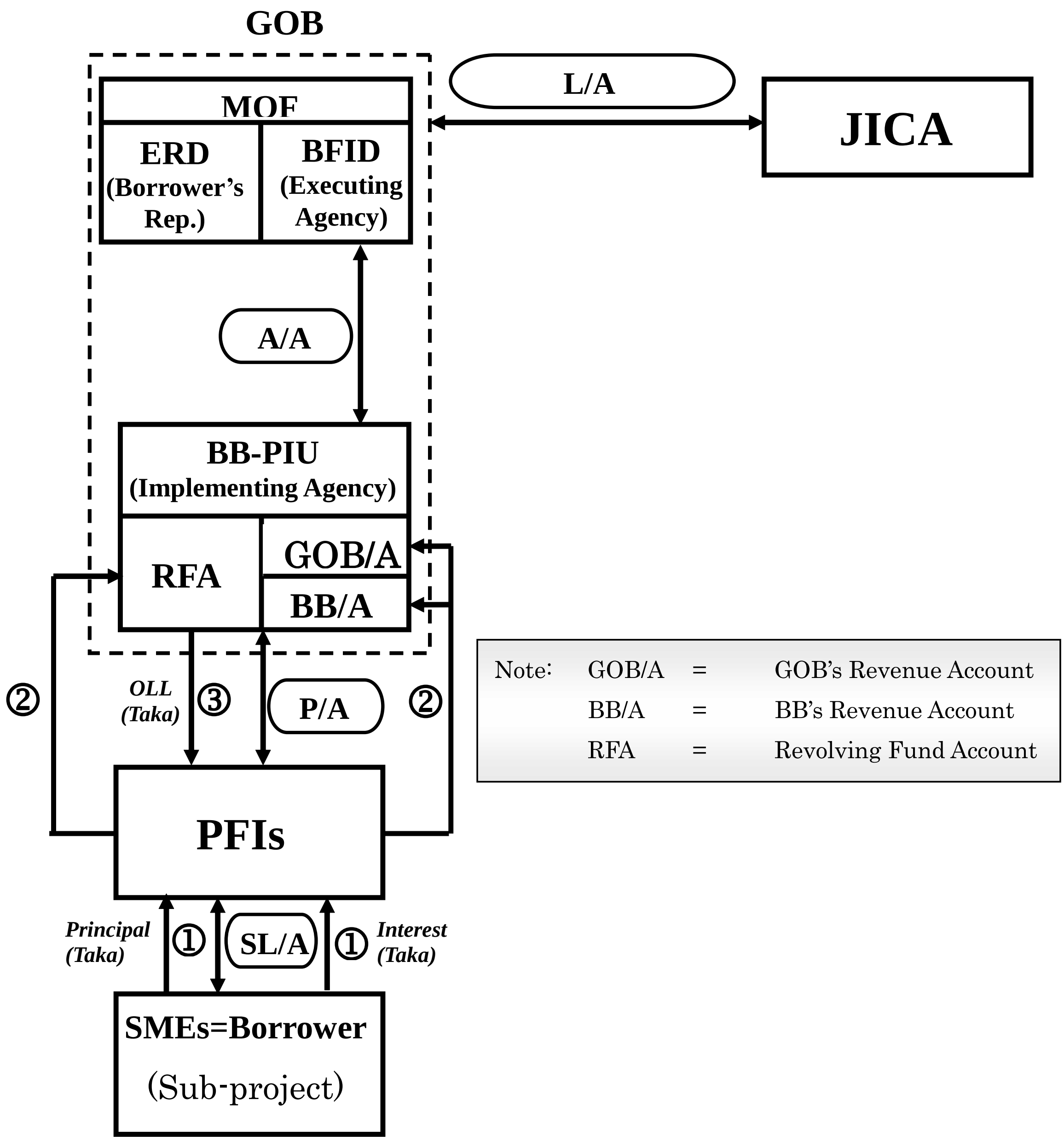
Guideline	Authority for significant modification	Reporting Requirement
Steering Committee		
composition	MOF-BFID/ JICA	-
member	-	MOF-BFID
functions	MOF-BFID/ JICA	-
Project Implementation Unit		
organogram	MOF-BFID	JICA
functions	MOF-BFID	JICA
Administration Agreement		
covenants	-	JICA
Participation Agreement		
terms and conditions	Steering Committee/ JICA	-
eligibility criteria	Steering Committee/ JICA	-
other covenants	Steering Committee	JICA
Sub-loan Agreement		
obligations	Steering Committee	JICA
Participating Financial Institutions (PFIs)		
accreditation criteria	Steering Committee/ JICA	-
list of accredited PFIs	PIU/ JICA	Steering Committee

ANNEX II: <u>Key Players and Funds Flow of the TSL Project</u> (Disbursement)



① Request for Sub-loan
② Request to PIU for an OLL
③ OLL extended to PFI
④ Sub-loan extended to SME Customers
⑤ Supply of Goods/ services
⑥ Payment made to the supplier

ANNEX III: <u>Key Players and Funds Flow of the TSL Project</u> (Repayment)



① Repayment of Principal and Payment of Interest on Sub-loan
② Repayment of Principal and Payment of Interest on OLL
③ OLL extended to PFI

ANNEX IV: Participation Agreement

Participation Agreement between Bangladesh Bank and ………………..

This Agreement is signed on the day of _ 20___

BETWEEN

The Bangladesh Bank established by the Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972), having its head office at Motijheel Commercial Area, Dhaka (hereinafter called BB),

And

a)[21] duly established under Companies Act of 1913/1994 and carrying on its business under BB's license No. dated having its head office, at , Dhaka (hereinafter called the Participating Bank).

b)[22] duly established under Companies Act of 1994 and carrying on its business under BB's license No. dated having its head office, at , Dhaka (hereinafter called the Participating Financial Institution).

Preamble

Whereas:

(A) Japan International Cooperation Agency (JICA) has provided a loan fund of Japanese Yen 5,000 million to Government of Bangladesh (GOB) under Financial Sector Project for the Development of Small and Medium-sized Enterprises (Loan No. BD-P67 dated May 18, 2011) to support the Two-Step Loan Project for Small and Medium-sized Enterprises (hereinafter called the "TSL Project") introduced by BB through its SMESPD Circular No. dated , 2012, to provide On-lending Loans to banks and financial institutions for lending in the SME sector:

(B) Bangladesh Bank has been entrusted with the responsibility to administer the TSL Project on behalf of GOB under the Administration Agreement dated September 7, 2011:

(C) It is requested to enter into a participation agreement between BB and the lending banks and non-bank financial institutions interested to avail of the On-lending Loan facilities out of JICA fund; and

(D) Whereas the PFI fulfills the eligibility criteria as set forth in clause of SMESPD Circular No. , dated and is willing to avail of the On-lending Loan facility from the above mentioned fund on terms and conditions described in the said Circular.

Now, therefore, the parties hereto hereby agree as follows:

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21 Applicable for Private Banks

22 Applicable for Financial Institutions

Article – I

<u>Definition</u>:

<u>Section 1</u>

Unless the context otherwise requires, the terms used in the preamble to this Agreement have the respective meaning therein set forth and the following additional terms have the following meaning:

(a) "Bank" means any banking company operating in Bangladesh having license from Bangladesh Bank.

(b) "SMESPD" means SME and Special Programmes Department of Bangladesh Bank.

(c) "PIU" means a unit established at SMESPD of BB to specifically handle all relevant tasks related to the TSL Project.

(d) "Financial Institution" means any non-bank financial institution engaged in financing and leasing business having license from Bangladesh Bank.

(e) "PFI" means a Participating Financial Institution; either bank or non-bank financial institution.

(f) "On-lending Loan" means the loan granted by Bangladesh Bank to banks or non-bank financial institutions under this TSL Project.

(g) "SME" means small and medium-sized enterprise.

(h) "End-borrower" means an enterprise (small/ medium) satisfying the criteria described in paragraph 13 of this Agreement for receiving a Sub-loan from a PFI.

(i) "Sub-loan" means a loan provided by the Participating Financial Institution to an enterprise as described in paragraph 13 of this Agreement.

(j) "Sub-project" means an investment project of an enterprise to be financed by a Sub-loan.

Article – II

<u>Objectives and Target Group</u>:

<u>Section 2</u>

The Participating Bank/ Participating Non-bank Financial Institution declares its commitments to the objectives of the TSL Project introduced by BB through SMESPD Circular No. dated and to this end, carries out its small and medium-sized enterprise lending programme with due diligence and efficiency and in conformity with the Operating Guidelines for the TSL Project attached to the said Circular and appropriate administrative, financial and banking practices.

<u>Section 3</u>

(1) BB shall provide On-lending Loan against the loans made or to be made by the Participating Bank/ Participating Non-bank Financial Institution to an enterprise (small/ medium) the amount of which in individual case shall range Taka 500,000 to Taka 50,000,000.

(2) The Participating Bank/ Participating Non-bank Financial Institution will be required to submit Demand Promissory Note amounting equal to the disbursement each time it receives refinancing or pre-financing under this Agreement.

(3) Any Sub-loan, along with its own contribution, BB shall not finance more than 75% of the cost of the qualified Sub-project; and the PFI shall finance at least 15% and the qualified End-borrower shall finance at least 10% of the cost of qualified Sub-project.

(4) The enterprise having fixed asset (excluding land & building) and/or man power employed as per the definition of SME laid out in SMESPD Circular No. 01, June 19, 2011.

Article – III

Terms and Conditions for the On-lending Loans and Sub-loans

<u>Section 4</u>

(1) The On-lending Loan will be available only for loans having following maturities:

(a) Long term : More than 5 years and up to 8 years.

(b) Medium term: Not less than 2 years and up to 5 years.

(c) Short term : 1 year,
renewable up to 5 years, subject to actual sales and production.

(2) The On-lending loans shall be repaid by the Participating Bank/ Participating Non-bank Financial Institution in accordance with fixed repayment schedule as prepared by BB. Repayment terms for On-lending Loans of different maturities shall be as under:

<u>Long term</u>:

Repayable within eight years, including up to two years grace period, from the date of disbursement in equal quarterly installments.

<u>Medium term</u>:

Repayable within five years, including up to one year grace period, from the date of disbursement in equal quarterly installments.

<u>Short term</u>:

Repayable within one year from the date of disbursement.

Section 5

(1) BB shall charge interest on the On-lending Loan at the prevailing Bank Rate. The Participating Financial Institution shall apply market based interest rate on the Sub-loans made to the End-borrowers.

(2) For each Sub-loan, PFI shall specify to End-borrower and BB the effective rate of interest inclusive of all charges and fees as well as the method of calculating the interest rates, such as the declining balance method or the flat rate method.

Section 6

On-lending Loan facilities will be made available to the Participating Financial Institution on “first come first served” basis and subject to the availability of balance in the Project Operating Account and the Revolving Fund Account. Bangladesh Bank shall reserve the right to meet the request for On-lending Loans of the PFIs in part or in full as considered appropriate by BB out of the available fund.

Section 7

BB shall have the discretion to refuse any request for On-lending Loan made by the Participating Financial Institution if such request in BB’s consideration does not conform to the objectives, terms and conditions of the On-lending Loan scheme set forth in its SMESPD Circular No. dated .

Section 8

In case the Participating Financial Institution is found to have received On-lending Loan under the scheme on the basis of such statement and information which may subsequently prove to be false or incorrect, BB shall have the right to impose and receive penalty at the rate of double the Bank Rate on the amount of the On-lending Loan as well as to recall the entire outstanding loans with interest by way of debiting the current account of the concerned PFI.

Section 9

(1) In case that a PFI fails to repay any installment of loans as per the repayment schedule, BB may realize the installment amount plus applicable interests by debiting them against the current account of the concerned PFI maintained with BB.

(2) In case the Participating Financial Institution requests BB, in advance, to make delay within 3 working days in repayment of the principal and payment of interest on On-lending Loan on valid ground, PFI shall pay a penalty of 3% above the Bank Rate on due amount applied for.

Article – IV

Miscellaneous

Section 10

The Participating Bank/ Participating Financial Institution shall be duly established and operating under the laws of the Country and shall:

(a) maintain a sound financial structure, a health portfolio, and the organization, management, staff and other resources required for the efficient carrying out of its activities;

(b) conduct its operation and affairs including interest rate policies in accordance with sound financial principles and practices:

(c) maintain a lending and investment policy conducive to the growth and development of small and medium-sized enterprise sector and maintain suitable procedures and adequate number of suitably qualified staff to enable it effectively to:

(i) appraise the financial, technical, environmental and economic feasibility of Sub-projects and to make Sub-loans to End-borrowers in accordance with sound lending and investment policy and in keeping with the principles, terms and conditions set forth in BB's SMESPD Circular No. dated as well as the Operating Guidelines for the TSL Project;

(ii) supervise and monitor the proper use of the Sub-loans by End-borrowers; and

(iii) undertake not to assign, amend, abrogate or waive any of its agreements with the End-borrower providing for loans or investments or any provision thereof without the approval of BB.

Section 11

The Participating Financial Institution shall make Sub-loans to the End-borrowers on terms by written contract or by other appropriate legal means to obtain rights adequate to protect the interests of BB, GOB and JICA, and comply with the obligations under the Participating Agreement in order to achieve the purpose of the TSL Project including the right to:

(a) inspect by BB itself or jointly with representatives of the GOB and/or the JICA, such goods and sites, works, plants, constructions included in the investment Sub-project of the End-borrowers, the operation thereof, and any relevant records and documents;

(b) obtain all such information as BB, GOB or JICA shall request relating to the forgoing and to the administration, operation and financial conditions of the End-borrower and to the benefit to be derived from the concerned Sub-project, including but not limited to the evidence of use of the proceeds of the Sub-loan, financial statements for every accounting term;

(c) suspend or terminate the right of the End-borrower to the use of the proceeds of the Sub-loan upon failure by such End-borrower to perform its obligations under its contract with the Participating Financial Institution; and

(d) cause to comply with all the environmental regulations established by GOB and JICA's guidelines for environmental and social consideration.

Section 12

Sub-loan under the TSL Project shall be used by End-borrowers exclusively to finance rehabilitation and expansion of existing enterprises as well as for establishing new enterprise for the purpose of the Sub-project, including (i) fixed assets (including machinery, equipment, factory buildings and related civil works), technical know-how, consultancy services and training; (ii) working capital (including initial stocks or increase in stocks of raw materials, spare parts and components); (iii) leasing of industrial and business equipment.

Section 13

This Agreement shall stay in force until BB notifies the Participating Bank/ Participating Non-bank Financial Institution on the termination of granting On-lending Loan facilities. This notification shall be made in writing at least three months before it becomes effective.

Section 14

Any provision of the Agreement can be amended if necessary on mutual agreement of the contracting parties.

Witness:	For and on behalf of
	Bangladesh Bank
…………………………….	
…………………………….	(Authorized Representative)
Witness:	For and on behalf of
	(Participating Bank/ Financial Institution)
…………………………….	
…………………………….	(Authorized Representative)

ANNEX V: Ineligible Investment Activities List

1. No investment activity will be financed by the TSL scheme, which is likely to have significant adverse impact on the environment, and which could be classified as Category A pursuant to 'JBIC Guidelines for Confirmation of Environmental and Social Considerations' (April 2002). Category A, in principle, includes projects in sensitive sectors (i.e., sectors that are liable to cause adverse environmental impact) or with sensitive characteristics (i.e., characteristics that are liable to cause adverse environmental impact) and projects located in or near sensitive areas, as follows:

   Sensitive Sectors
   Large-scale projects in the following sectors:
   (1) Mining;
   (2) Oil and natural gas development;
   (3) Oil and gas pipelines;
   (4) Iron and steel (projects that include large furnaces);
   (5) Non-ferrous metals smelting and refining;
   (6) Petrochemicals (manufacture of raw materials; including complexes)[23];
   (7) Petroleum refining;
   (8) Oil, gas and chemical terminals;
   (9) Paper and pulp[24];
   (10) Manufacture and transport of toxic or poisonous substances regulated by international treaties, etc.;
   (11) Thermal power;
   (12) Hydropower, dams and reservoirs;
   (13) Power transmission and distribution lines involving large-scale involuntary resettlement, large-scale logging or submarine electrical cables;
   (14) Roads, railways and bridges;
   (15) Airports;
   (16) Ports and harbors;
   (17) Sewage and wastewater treatment having sensitive characteristics or located in sensitive areas or their vicinity;
   (18) Waste management and disposal;
   (19) Agriculture involving large-scale land-clearing or irrigation;
   (20) Forestry; or
   (21) Tourism (construction of hotels, etc.)

   Sensitive Characteristics
   (1) Large-scale involuntary resettlement[25];
   (2) Large-scale groundwater pumping[26];
   (3) Large-scale land reclamation[27], land development and land-clearing[28];
   (4) Large-scale logging[29]

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[23] Large-scale projects in this sector mean the projects relating to the storage facility with the capacity of over 200,000 ton.
[24] Large-scale projects in this sector mean the projects relating to the production facility with the capacity of over 200 ton per day.
[25] "Large-scale" in this case means the involuntary resettlement of over 200 persons approximately.
[26] "Large-scale" in this case means the groundwater pumping of over 10 million cubic meters per year approximately.
[27] "Large-scale" in this case means the land reclamation of over 50 ha approximately.
[28] "Large-scale" in this case means the land development or land-clearing of over 100 ha approximately.
[29] "Large-scale" in this case means the logging of over 100 ha of forests approximately.

Sensitive Areas

Projects in the following areas or their vicinity

(1) National parks, nationally-designated protected areas (coastal areas, wetlands, areas for ethnic minorities or indigenous peoples and cultural heritage, etc. designated by national governments)

(2) Areas considered to require careful consideration by the country or locality

<Natural Environment>

a) Primary forests or natural forests in tropical areas;
b) Habitats with important ecological value (coral reefs, mangrove wetlands and tidal flats, etc.);
c) Habitats of rare species requiring protection under domestic legislation, international treaties, etc.;
d) Areas in danger of large-scale salt accumulation or soil erosion; or
e) Areas with a remarkable tendency towards desertification

<Social Environment>

a) Areas with unique archeological, historical or cultural value;
b) Areas inhabited by ethnic minorities, indigenous peoples or nomadic peoples with traditional ways of life and other areas with special social value

2. In addition to the above, the following activities[30] will not be eligible for financing under the TSL scheme:

Prohibited Investment Activities List

(1) Production or activities involving harmful or exploitative forms of forced labor[31] or child labor[32];
(2) Production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phase-outs or bans, such as (a) pharmaceuticals[33], pesticides, and herbicides[34], (b) ozone-depleting substances[35], (c) polychlorinated biphenyls[36] and other hazardous chemicals[37], (d) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora[38], and (e) transboundary trade in waste or waste products[39];
(3) Production of or trade in weapons and munitions, including paramilitary materials;
(4) Production of or trade in alcoholic beverages, excluding beer and wine[40];
(5) Production of or trade in tobacco[18];

[30] This list is added in reference to the Prohibited Investment Activities List adopted in ADB’s Small and Medium-Sized Enterprise Development Project.
[31] Forced labor means all work or services not voluntarily performed, that is, extracted from individuals under threat of force or penalty.
[32] Child labor means the employment of children whose age is below 14.
[33] A list of pharmaceutical products subject to phase-outs or bans is available at http://www.who.int.
[34] A list of pesticides and herbicides subject to phase-outs or bans is available at http://www.pic.int.
[35] A list of the chemical compounds that react with and deplete stratospheric ozone resulting in the widely publicized ozone holes is listed in the Montreal Protocol, together with target reduction and phase-out dates. Information is available at http://www.unep.org/ozone/montreal.shtml.
[36] A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.
[37] A list of hazardous chemicals is available at http://www.pic.int.
[38] A list is available at http://www.cites.org.
[39] As defined by the Basel Convention; see http://www.basel.int.
[40] This does not apply to project sponsors who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a project sponsor's primary operations.

(6) Gambling, casinos, and equivalent enterprises[18];
(7) Production of or trade in radioactive materials[41], including nuclear reactors and components thereof;
(8) Production of, trade in, or use of unbonded asbestos fibers[42];
(9) Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests;
(10) Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats; and
(11) Production or activities that impinge on lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

[41] This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which ADB considers the radioactive source to be trivial and/or adequately shielded.
[42] This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

ANNEX VI: Terms and Conditions of Sub-loans

Lender:	The PFIs (The eligible banks and financial institutions)
Borrower:	Clients of PFIs (SMEs) (See "Eligibility Criteria for End-borrowers)
Currency:	Bangladesh Taka
Amount:	Tk 200,000 － Tk 50,000,000 [*Exception: For the RMG and Knitwear sector safe working environment program, the maximum loan amount will be Tk.100,000,000*]
Terms and Conditions	
Term:	2 - 5 years (incl. grace up to 1 year) 5 - 8 years (incl. grace up to 2 years)
(Working Capital)	1 year, annually renewable up to 5 years[43] [*Exception: Maximum 15 years(incl. grace period of 2 years) will be applicable for RMG and Knitwear sector safe working environment program*]
Interest rate:	To be determined by arrangement between PFI and Borrower in compliance with the rules and regulations prevailing in Bangladesh [*Exception: A maximum of 5% spread over Bangladesh Bank rate can be charged by the PFIs for* ***women led enterprises*** *and the RMG and Knitwear sector safe working environment program.*]
Repayment Schedule:	To be determined by arrangement between PFI and Borrower in compliance with the rules and regulations prevailing in Bangladesh
Interest payment:	To be determined by arrangement between PFI and Borrower in compliance with the rules and regulations prevailing in Bangladesh
Prepayment:	To be determined by arrangement between PFI and Borrower in compliance with the rules and regulations prevailing in Bangladesh
Security:	To be determined by arrangement between PFI and Borrower in compliance with the rules and regulations prevailing in Bangladesh

Note: The exception will be applicable for ***women led enterprises*** *and the RMG and Knitwear sector safe working environment program under an MOU signed among JICA, BB, PWD, BGMEA and BKMEA. The concept note and the signed MOU will be an integral part of the RMG and Knitwear sector working environment program along with this Operating Guideline.*

[43] based on actual results of sales and production

ANNEX VII: Terms and conditions of On-lending Loans

Lender	BB
Borrower	Eligible PFIs
Amount	Within 75% of the cost of Sub-project i.e., about 83%[44] of Sub-loan amount (Tk. 166,666 – Tk. 41,666,666[45]) Exception: *For **women led enterprises** and the RMG and Knitwear sector safe working environment program-within 90% of sub-project i.e. 100% of the sub-loan amount.*
Currency	Bangladesh Taka
Terms & Conditions:	
Term (grace): (Working Capital)	2 - 5 years (incl. grace up to 1 year) 5 - 8 years (incl. grace up to 2 years) 1 year, annually renewable up to 5 years[46] [*Exception: Maximum 15 years(incl. grace period of 2 years) will be applicable for RMG and Knitwear sector safe working environment program*]
Maturity:	Synchronized with that of the respective Sub-loan, i.e., Equal to the maturity of the Sub-loan
Interest rates:	Bangladesh Bank Rate (currently at 5% p.a.)
Interest payment:	Quarterly (calculated on accrual basis)
Penalty:	Overdue not expected, as BB will realize the installment amount plus applicable interests by debiting them against the current account of the concerned PFI maintained with BB. However, the PFI may be allowed to make delay in payment within 3 working days on valid ground with condition that request for such delay shall be made in advance and that a penalty of 3% above the Bank Rate on due amount applied for.
Security:	In case that a PFI fails to repay any installment of loans as per the repayment schedule, BB may realize the installment amount plus applicable interests by debiting them against the current account of the concerned PFI maintained with BB.

*Note: The exception will be applicable for **women led enterprises** and the RMG and Knitwear sector safe working environment program under an MOU signed among JICA, BB, PWD, BGMEA and BKMEA. The concept note and the signed MOU will be an integral part of the RMG and Knitwear sector working environment program along with this Operating Guideline.*

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[44] maximum 75% of total cost to be financed by OLL, while Sub-loan covering maximum 90%.
[45] OLL covers 75% of total cost, while sub-loan covers 90% of total cost.
[46] renewable being synchronized with Sub-loan

ANNEX VIII: Accreditation Criteria for PFIs

1. The PFIs must comply with all of the following criteria:

(1) Legality

(i) Scheduled Banks duly licensed, approved and supervised by BB in accordance with the Banking Companies Act, 1991; or

(ii) Non-Bank Financial Institutions duly licensed, approved and supervised by BB in accordance with the Financial Institutions Act, 1993.

(2) Operational Experiences

Banks and financial institutions must have the experience of business operation in banking and/or finance at a minimum three (3) full years with audited records. In case the banks and financial institutions are of subsidiaries to other financial entities in Bangladesh or in foreign countries, the experiences of the parent companies are allowed to be counted.

(3) Commitment to SME lending

Banks and financial institutions must have lending policies and strategy related to SMEs and commit to expanding their lending in SME sector.

(4) Capital Adequacy

(i) Banks and financial institutions must fulfill the minimum capital requirement[47] as regulated by BB in its latest audited financial statements. and

(ii) Banks and financial institutions failing to meet the risk weighted capital adequacy ratio[48] as regulated by BB shall not be eligible for PFIs[49].

(5) Profitability

Banks and financial institutions must have the records of the profitable financial closing for two consecutive fiscal years including the latest one.

(6) Non-Performing Loans (NPL)

Banks and financial institutions having NPL ratio exceeding 10% for the latest fiscal year shall not qualify for PFIs.

(7) Problem Banks

Banks and financial institutions that are classified as the problem bank or the early warning bank according to the CAMELS rating for BB's monitoring and supervision

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[47] As of November 2010, the scheduled banks are required to maintain the minimum capital of Tk 4.00 billion in net worth, of which Tk 2.00 billion has to be maintained as paid-up capital, whereas NBFIs are required Tk 0.5 billion in net worth and the minimum paid-up capital of Tk 0.5 billion.

[48] As of November 2010, all the banks are required to maintain the minimum capital adequacy ratio not lower than 10.0%.

[49] As of December 2011, non-bank financial institutions (NBFIs) are not subject to the restriction of risk weighted capital adequacy ratio, whereas they must maintain the minimum capital, both in net worth and paid-up capital. However, BB's Prudential Guidelines on Capital Adequacy and Market Discipline (CAMD) for Financial Institutions are issued, which has come into force January 01, 2012, so that, after January 2012, NBFI is required to maintain a CAR of minimum 10%.

shall not qualify for PFIs.

2. In addition to the above criteria, if banks and financial institutions are deemed to have significant insufficiency in fulfilling the prudential regulations in the aspects, including but not limited to the following, and if such insufficiency is deemed to adversely affect their operations and management, such banks and financial institutions shall not be accredited:

(8) **Transparency** (e.g. submission and/or disclosure of financial statements)

(9) **Corporate Governance** (e.g. control and management of business risks or corruption)

(10) **Risk Management** (e.g. capacity development of risk assessment and adoption of adequate procedures)

ANNEX IX: Accreditation Assessment Form

Accreditation Assessment Form

(Name of Financial Institution:)

Criterion	Statement	Fulfill the Criteria (Yes or No)
(1) Legality	Financial Institution No. with BB:	
(2) Operational Experiences	Establishment Year: (Copy of audited financial statements for the latest 3 years attached)	(> 3 years)
(3) Commitment to SME Lending	"Expansion of the Lending in SME Sector" (Copy of lending policies attached)	
(4) Capital Adequacy		
(a) Capital in Net Worth	Taka million (as of)	
(b) Paid-up Capital	Taka million (as of)	
(c) Capital Adequacy Ratio	(as of) (evaluated by BB)	(> 10 %)
(5) Profitability	Net Profit Taka million (in Fiscal Year ending) Taka million (in Fiscal Year ending)	(> 0)
(6) Non-Performing Loans (NPL)	NPL Ratio: (as of)	(< 10 %)
(7) CAMELS Rating	Classification: (for Fiscal Year ending)	
(8) Prudential Regulations		
(a) Transparency		
(b) Corporate Governance		
(c) Risk Management	(Copy of risk management procedures attached)	
(d) Others, if any		

ANNEX X: Financial Statements

Attachment to Accreditation Assessment Form

Attachment I: Financial Statements

(Name of Financial Institution:)

(in Taka million)

	2008	Shares (%)	Growth (%)	2009	Shares (%)	Growth (%)	2010	Shares (%)	Growth (%)	Avg. Growth (%)
Balance Sheet										
Cash and cash equiv.		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Short-term liquid assets		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Loans (net)		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Other assets		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Total assets		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**	**#DIV/0!**
Deposits from customers		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Due to banks & FIs		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Other liabilities		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Total liabilities		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**	**#DIV/0!**
Share capital		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Other reserves		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Retained earnings		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Total equity		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**	**#DIV/0!**
Total liab. & equity		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**	**#DIV/0!**
Income Statement										
Interest income		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Non-int. income		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Total revenue		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**	**#DIV/0!**
Net interest income		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Net non-interest income		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Total net income (=operating income)		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**	**#DIV/0!**
Operating expenses		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Contingent risk expense		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Net non-operating income		#DIV/0!	-		#DIV/0!	-		#DIV/0!	-	-
Profit bfr tax		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**	**#DIV/0!**
Net profit		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**		**#DIV/0!**	**#DIV/0!**	**#DIV/0!**
Operatinal Ratios										
Capital adequacy (>10%)			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
Liquidity			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
Single borrower exp. (<20%)			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
Forex exposure (<40%)			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
Loan to deposit	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!
NPL			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
RoE			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
RoA			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!

Source:

Note: The fiscal year ends in

ANNEX XI: JBIC Guidelines for Environmental and Social Considerations

Following is the excerpts of the relevant articles from the JBIC Guidelines for Confirmation of Environmental and Social Consideration that is the rule applicable to the Project[50]. Wherever may it be referred to, the word "JBIC" should be interpreted to represent JICA throughout the Guidelines.

- **Article 3. Basic Principles Regarding Confirmation of Environmental and Social Considerations; Item (1) Parties Responsible for Environmental and Social Considerations**

  The project proponents are responsible for environmental and social considerations for the project. JBIC confirms such considerations in light of the Guidelines. JBIC encourages project proponents seeking funding from JBIC to undertake appropriate environmental and social considerations in accordance with the nature of the project.

- **Article 3. Item (2) Confirmation of Environmental and Social Considerations by JBIC**

  JBIC does the following to confirm environmental and social considerations;

  (a) Classifies the project into one of the categories listed in Section 4.(2) (hereinafter referred to as "screening");

  (b) Conducts a review of environmental and social considerations when making a decision on funding, to confirm that the requirements are duly satisfied (hereinafter referred to as "environmental review"); and

  (c) Conducts monitoring and follow-up after the decision has been made on funding (hereinafter, such monitoring and follow-up processes will be simply referred to as "monitoring").

  JBIC confirms in its environmental reviews; 1) whether appropriate and sufficient considerations is given to environmental and social issues before the implementation of the project, 2) whether appropriate environmental and social considerations can be expected after JBIC makes decisions on the funding of the project in light of such factors as the state of preparation by the project proponent and host government, their experience, operational capacity, and the state of securing funds, as well as external factors of instability.

- **Article 3. Item (5) Taking into Account of Funding Decisions**

  JBIC takes the outcomes of its environmental reviews into account for decision on funding. If, as a result of its environmental review, JBIC judges that appropriate environmental and social considerations are not ensured, it will encourage the project proponent, through the borrower, to undertake appropriate environmental and social considerations. If appropriate environmental and social considerations are not undertaken, there may be cases where funding is not extended.

- **Article 4. Procedures for Confirmation of Environmental and Social Considerations. Item (1) Screening**

  Before starting an environmental review of a project, JBIC classifies the project into one of the following categories. The subsequent environmental review will then be conducted in accordance with the procedures for that category.

- **Article 4. Item (2) Categorization**

  Category A: A proposed project is classified as Category A if it is likely to have significant

[50] Full text of the JBIC's Guidelines can be obtained through;
http://www.jica.go.jp/english/publications/jbic_archive/environmental_guidelines/pdf/guide.pdf

adverse impact on the environment. A project with complicated impact or unprecedented impact which are difficult to assess is also classified as Category A. The impact of Category A projects may affect an area broader than the sites of facilities subject to physical construction. Category A, in principle, includes projects in sensitive sectors (i.e. sectors that are liable to cause adverse environmental impact) or with sensitive characteristics (i.e. characteristics that are liable to cause adverse environmental impact) and projects located in or near sensitive areas. An illustrative list of sensitive sectors, characteristics and areas is given in the Table below.

Category B: A proposed project is classified as Category B if its potential adverse environmental impact is less adverse than that of Category A projects. Typically, this is site-specific, few if any are irreversible, and in most cases normal mitigation measures can be designed more readily. Projects funded by Engineering Service Loans that are Yen Loans for survey and design, are classified as Category B, with the exception of those belonging to Category C.

Category C: A proposed project is classified as Category C if it is likely to have minimal or no adverse environmental impact. Projects that correspond to one of the following are, in principle, classified as Category C, with the exception of projects with sensitive characteristics and projects located in sensitive areas as indicated in the Table below:

1) Projects for which the JBIC's share is not above SDR 10 million;
2) Sectors or projects in which no particular environmental impact would be normally expected (e.g. human resources development, support for international balance of payments, maintenance of existing facilities, acquisition of rights and interest without additional capital investment): or
3) Cases in which there is only minor involvement of the project by the borrower or JBIC, such as the export/import or lease of items of machinery or equipment that is not connected with a particular project, and where there would be little reasonable significance in JBIC's conducting an environmental review.

Category FI: A proposed project is classified as Category FI if it satisfies all of the following; JBIC's funding of the project is provided to a financial intermediary etc.; the selection and assessment of the actual sub-projects is substantially undertaken by such as institution only after JBIC's approval of funding (or assessment of the project); and those sub-projects are expected to have potential impact on the environment.

- **Article 4. Item (3) Environmental Review for Each Category**

After the screening process, JBIC carries out environmental reviews according to the following procedures for each category.

Category A: Environmental reviews for Category A projects examine the potential negative and positive environmental impact of projects. JBIC evaluates measures necessary to prevent, minimize, mitigate or compensate for potential negative impact, and measures to promote positive impact if any such measures are available. Borrowers and related parties must submit Environmental Impact Assessment (EIA) reports for Category A projects. For projects that will result in large-scale involuntary resettlement, basic resettlement plans must be submitted. JBIC undertakes its environmental reviews based on the EIA and other reports prepared by the project proponents and submitted through the borrower.

Category B: The scope of environmental reviews for Category B projects may vary from project to project, but it is narrower than that for Category A projects. The environmental reviews for Category B are similar to that of Category A in that they examine potential negative and positive environmental impact and evaluate measures necessary to prevent, minimize, mitigate or compensate for the potential negative impact, and measures to promote positive impact if any such measures are available. JBIC undertakes its environmental reviews based on information provided by borrowers and related parties. Where an EIA procedure has been conducted, the EIA report may be referred to, but this is not a mandatory requirement.

Category C: For projects in this category, environmental reviews will not proceed beyond screening.

Category FI: JBIC checks through the financial intermediary etc. to see whether appropriate environmental and social considerations as stated in the Guidelines are ensured for projects in this category.

- **Article 4. Item (4) Monitoring**
  JBIC in principle confirms through the borrower over a certain period of time, the results of monitoring the items which have a significant environmental impact by the project proponents. This is in order to confirm the project proponents' undertaking of environmental and social considerations for Category A and B projects.

- **Article 6. Taking Environmental Reviews into Account for Decision-making and Loan Agreements**
  JBIC takes the results of the environmental reviews into account for its decision-making on funding. If JBIC considers that a project is likely to have an adverse impact on the environment due to inappropriate environmental and social considerations, it will encourage, through the borrower the project proponent to undertake appropriate environmental and social considerations. If appropriate environmental and social considerations are not undertaken, JBIC may decide not to extend funding.

Table: Illustrative List of Sensitive Sectors, Characteristics and Areas

Illustrative List of Sensitive Sectors, Characteristics and Areas

1. **Sensitive Sectors**

   Large-scale projects in the following sectors:
   1) Mining,
   2) Oil and natural gas development,
   3) Oil and gas pipelines,
   4) Iron and steel (projects that include large furnaces),
   5) Non-ferrous metals smelting and refining,
   6) Petrochemicals (manufacture of raw materials; including complexes),
   7) Petroleum refining,
   8) Oil, gas and chemical terminals,
   9) Paper and pulp,
   10) Manufacture and transport of toxic or poisonous substances regulated by international treaties, etc.,
   11) Thermal power,
   12) Hydropower, dams and reservoirs,
   13) Power transmission and distribution lines involving large-scale involuntary resettlement, large-scale logging or submarine electrical cables,
   14) Roads, railways and bridges,
   15) Airports,
   16) Ports and harbors,
   17) Sewage and waste water treatment having sensitive characteristics or located in sensitive areas or their vicinity,

18) Waste management and disposal,
19) Agriculture involving large-scale land-clearing or irrigation,
20) Forestry,
21) Tourism (construction of hotels, etc.)

2. Sensitive Characteristics

1) Large-scale involuntary resettlement,
2) Large-scale groundwater pumping,
3) Large-scale land reclamation, land development and land clearing,
4) Large-scale logging.

3. Sensitive Areas

Projects in the following areas or their vicinity:

1) National parks, nationally-designated protected areas (coastal areas, wetlands, areas for ethnic minorities or indigenous peoples and cultural heritage, etc. designated by national governments)
2) Areas considered to require careful consideration by country or locality

Natural Environment

a) Primary forests or natural forests in tropical areas,
b) Habitats with important ecological value (coral reefs, mangrove wetlands and tidal flats, etc.)
c) Habitats of rare species requiring protection under domestic legislation, international treaties, etc.,
d) Areas in danger of large-scale salt accumulation or soil erosion,
e) Areas with a remarkable tendency towards desertification.

Social Environment

a) Areas with unique archeological, historical or cultural value,
b) Areas inhabited by ethnic minorities, indigenous peoples or nomadic peoples with traditional ways of life and other areas with special social value.