



BANGLADESH BANK
(Central Bank of Bangladesh)
Head Office
Motijheel, Dhaka-1000
Bangladesh

SMESPD Circular No.: 01

Dated : March 31, 2019

CEOs/MDs
All Banks and Financial Institutions in Bangladesh
Head Office
Dhaka
Dear Sirs,

**Loan fund for pre-finance under Program to Support Safety Retrofits and
Environmental Upgrades in the Bangladeshi Ready-Made Garments (RMG) Sector
Project (SREUP) (BD-2230322)**

01. Government of the People's Republic of Bangladesh has constituted a Loan fund in Bangladesh Bank to support the RMG factories through medium to long term finance under the "Program to Support Safety Retrofits and Environmental Upgrades in the Bangladeshi Ready-Made Garments (RMG) Sector Project (SREUP)" sponsored by AFD (Agence Française de Développement)
02. The loan fund size of the project is EUR 50 million. Technical Assistance (TA) component for Participating Financial Institutions (PFIs) & RMG factories is also offered under SREUP sponsored by European Union (EU), Kreditanstalt für Wiederaufbau (KfW), Gesellschaft für Internationale Zusammenarbeit (GIZ) and Bangladesh Bank. The total fund size for TA is EUR 14.29 million.
03. PFIs will be provided with pre-finance for disbursing the credit to eligible RMG factories under the loan fund for Safety Retrofits and Environmental Up-gradation.
04. A Guideline comprising policies and procedures of this project has been developed. The fund will be governed by this Guideline for SREUP which is attached with this Circular at *annexure-5*.
05. The loans provided by the PFI to an end borrower of RMG sector (named Sub-loan) which is described in details in the Guideline of SREUP.

Major features of the Sub-Loans are:

- i. Lender : Participating banks and non-bank financial institutions (PFIs);
- ii. End Borrower : Eligible clients (on RMG Sector) of PFIs
- iii. Currency : Bangladesh Taka
- iv. Maximum loan amount : 1. BDT-equivalent of EUR 1 million.
2. May be extended up to BDT-equivalent of EUR 3 million in case of (i) major environmental up-gradation or (ii) any other duly justified and documented case
- v. Interest rate: : Maximum 7% per annum.
- vi. Maturity : 1. Usually 3 to 5 years
2. May be extended up to 7 years in the case of (i) major environmental up-gradation or (ii) any other duly justified and documented case
- vii. Nature of works : Safety remediation, environmental and social up-gradation of RMG factories.
- viii. Incentive : End borrower & PFIs will get Investment Grant as incentive for full utilization and completing the sub-projects accurately.
- ix. Credit Risk : PFIs will have to bear the credit risk of end-borrowers
- x. Collateral : Decided by PFIs following BB's prudential guidelines
- xi. Fees : As per circular of BRPD and standard practice of the PFIs. No excessive fees (i.e. beyond usual bank and market practice) shall be applied by PFIs to end-borrowers under the sub-project.
- xii. Installments : In general, interest will be charged on quarterly basis for end borrowers according to their type of loans.
- xiii. Others : a. Factories may avail both facilities if it is found they are eligible for investments; but at first safety retrofits has to be done and then environment & social up-gradation.
b. Factories which have already completed their safety remediation and can provide evidence of full compliance to the Corrective Action Plan (CAP) with positive review by the Independent Technical Assessors; or which simultaneously undertake to conduct their safety-related investments under the project will be eligible for their voluntary investments related to environment and/or social up-gradation to be financed under the loan funds

06. Terms and conditions of On-Lending Loan (OLL):

“On-Lending Loan” means the loan granted by Bangladesh Bank to PFIs under SREUP. The features of OLL are:

- i. Lender:** Bangladesh bank.
- ii. Borrower:** Eligible PFIs.
- iii. Amount:** Synchronized with that of the respective sub-loan.
- iv. Currency:** Bangladesh Taka (BDT)
- v. Grace period:** Synchronized with that of the respective sub-loan.
- vi. Maturity:** Synchronized with that of the respective sub-loan.
- vii. Interest Rate:** 3.5%.
- ix. Repayment:** Quarterly and will be synchronized with that of the respective sub-loans.
In case of loan prepayment, PFIs should not impose any charges/fees to the end borrower for the early settlement or prepayment, as well as Bangladesh Bank will not impose any penalty to PFIs for this.
- x. Collateral:** Current account of concerned PFI maintained with Bangladesh Bank.

- xi. Penalty/ Penal interest:** In case the PFI is found to have received OLL under the scheme on the basis of such statement and information which may subsequently be proved false or incorrect, Bangladesh Bank shall have the right to impose penal interest. In case of any overdue amount, PFIs will have to pay a penalty of 2% of the sub project OLL for a maximum of 3 working days then a penalty at bank rate above the project on-lending rate for subsequent days on due amount. In case of false/fake information, excess charge at the bank rate over the OLL interest rate will be applied as penalty on the amount of OLL

In such cases, Bangladesh Bank will recover the entire outstanding loans with due interest plus applicable penal interest by way of debiting the current account of the concerned PFI maintained with Bangladesh Bank.

07. Eligibility Criteria for Participating RMG factories

- RMG companies owning both a RMG factory and the building where the factory is located;
- RMG companies owning a RMG factory, but not the building where the factory is located;
- Owners of a building where at least one RMG factory is located.

Other details are given in the Guideline of SREUP.

Eligible RMG companies will apply for loans to the PFIs for their eligible sub-projects investments based on CAPs commitments (Accord, Alliance & NTPA).

08. Eligibility Criteria for PFIs

To apply to the request for proposal, participate in the project and access the loan funds, Banks and Non-Bank Financial Institutions will be required to meet and maintain the following eligibility criteria, based on performance and prudential parameters:

	Criterion	Requirements
i	Legality	Duly licensed from Bangladesh Bank.
ii	Operational Experience	Minimum 7 (Seven) years of operational experiences with audited records
iii	Commitment to RMG sector lending	Existence of lending policies and strategy related to the RMG sector
iv	Capital Adequacy	
	(a) Minimum capital requirement	Compliant with the minimum capital requirement for banks and non-bank financial institution as stipulated by Bangladesh Bank
	(b) Capital Adequacy Ratio	Compliant with the minimum risk weighted capital adequacy ratio as stipulated by Bangladesh Bank
v	Profitability	Running profitably for the last 2 (two) consecutive accounting years
vi	Non-Performing Loans (NPLs)	Not exceeding 7% (seven percent) for the last accounting year
vii	CAMELS rating:	Minimum "Satisfactory" CAMELS ratings
viii	Transparency	Submission and/or disclosure of annual report /financial statements/ green banking initiatives/activities to the respective authority and publishing/updating in the official websites in a timely manner
ix	AML requirements	PFIs undertaking : <ul style="list-style-type: none"> - to implement " Know Your Customer " procedures that fully comply with BFIU guidelines and the recommendations of the FATF - not to finance through this Project any customers who are on the sanction lists of Bangladesh Bank, United Nation, European Union (EU), France, Germany and EU member states in relation to fraud, embargoes or fight against terrorism.
x	Corporate Governance	A framework of policies, procedures and workflows that establish effective internal control and accountability in all phases of management operations is to be existed to control and manage business risks and corruption.

xi	Risk Management	Core risk management guidelines and frameworks stipulated by Bangladesh Bank are to be implemented for capacity building of risk assessment and adoption of adequate procedures.
xii	Green Banking Guidelines	A green banking policy and strategy (approved by the banks/ non-bank financial institution's Board of Directors) in line with the ESRM guidelines issued by Bangladesh Bank is to be formulated and adopted.

10. To participate in this fund, interested Banks and NBFIs should apply as per the application format (*annexure-1*) with duly filled-up template (*annexure 2, 3 & 4*) attached with this circular.

11. Interested Banks and NBFIs are requested to go through the Guideline for SREUP before applying. Application must include all required information and relevant documents stated in this circular, application format and the Guideline for SREUP. Incomplete applications will not be entertained.

12. Each PFI has to sign a comprehensive Participation Agreement with Bangladesh Bank as per the template enclosed in *annexure 6* to participate in this project.

13. PFI have to submit various statements and reports for each loans and overall project as stated by the template attached at *annexure 7* with this circular as and when required by Bangladesh Bank.

Please bring the content of this circular to the notice of all concerns.

Attachment: As mentioned.

Yours Sincerely



(Nawshad Mustafa)

Deputy General Manager

&

Deputy Project Director, SREUP

Ph: 9530060

General Manager
SME & Special Programs Department
&
Project Director
Program to Support Safety Retrofits and Environmental Upgrades in the Bangladeshi Ready-
Made Garments (RMG) Sector Project (SREUP) (BD-2230322)
Bangladesh Bank, H.O
Dhaka-1000

Dear Sir,

**Letter of Intent to become Participating Financial Institutions (PFIs) under Program
to Support Safety Retrofits and Environmental Upgrades in the Bangladeshi Ready-
Made Garments (RMG) Sector Project (SREUP) (BD-2230322)**

With reference to the SMESPD Circular no. 01 dated 31/03/2019 we intend to express our interest in participating in the project. We attach the documents as required for your kind consideration. We also furnish the information as sought in the annexure of this circular.

We, therefore, request you to consider our application and allow us to work with you to Support Safety Retrofits and Environmental and Social Up gradation of RMG factories in Bangladesh through our active participation.

Thanking you

Truly yours,

()

CEO/MD
Bank/NBFI Name

Financial Statement

Annexure -3 to Accreditation Application Form

Name of the Bank/ Non-Bank Financial Institution:

(in billion taka)

	Year 2016		Year 2017		Year 2018	
	Shares of Total (%)	Growth (%)	Shares of Total (%)	Growth (%)	Shares of Total (%)	Growth (%)
Balance Sheet						
Cash & cash equivalents						
Loans(net)						
Others assets						
Total Assets						
Deposits from customers						
Due to banks & NBFIs						
Other liabilities						
Total liabilities						
Share capital						
Other reserves						
Retained earnings						
Total equity						
Total equity & liabilities						
Income Statement						
Interest income						
Non-interest income						
Total revenue						
Net interest income						
Net non-interest income						
Total net revenue (Operating income)						
Operating expenses						
Contingent risk expenses						
Net non-operating income						
Profit before tax						
Net Profit						

	Year 2016		Year 2017		Year 2018	
	Shares of Total (%)	Growth (%)	Shares of Total (%)	Growth (%)	Shares of Total (%)	Growth (%)
Operational ratios						
Capital adequacy (>10%)						
Liquidity						
Single borrower exposure (<20%)						
Forex exposure (<40%)						
Loan to deposit ratio(LDR)						
NPL						
ROE						
ROA						

- Please provide reference date.

Contact Details of Relevant Personnel

Annexure -4 to Accreditation Application Form

Name of Bank/ Financial Institution:

SI No.	Name of the Nominated Officials assigned for this project related communication	Mailing Address				Electronic Communication		
		Address Line 1	Address Line 2	City	Post Code	Cell phone no	Phone Number	Email
1								
2								
3								
4								
5								

GUIDELINE

For

**PROGRAM TO SUPPORT SAFETY RETROFITS AND
ENVIRONMENTAL UPGRADES IN THE
BANGLADESHI READY-MADE GARMENTS (RMG)
SECTOR PROJECT (SREUP)**



**PROJECT MANAGEMENT UNIT
SME AND SPECIAL PROGRAMMES DEPARTMENT
BANGLADESH BANK**

Table of Contents

ABBREVIATIONS AND ACRONYMS	14
Introduction.....	15
Objective.....	15
Project Duration.....	15
Project Location.....	15
Project Component.....	16
Component 1 – Investment	16
A. Credit Facility	16
B. Performance-based grant mechanism.....	16
Component 2 – Technical Assistance (TA):.....	17
1. 2B-TA: Customized services to eligible RMG companies & PFIs.....	17
2. 2C TA: Technical cooperation to RMG companies and PFIs	18
Implementation Mechanism.....	18
1. Project Management Unit (PMU).....	18
2. Independent Technical Assessors	19
3. Consultant to provide customized services to PFIs and RMG factories:.....	19
4. Local Service Providers	19
Selection of PFIs.....	20
Eligibility Criteria for PFIs	20
Process for Selection of PFIs	20
Features of On-Lending Loans (OLL).....	21
Eligibility Criteria for Participating RMG factories	22
Eligibility Criteria for Sub-Projects	23
1. Investments related to safety remediation:.....	23
2. Investments related to environmental and social upgrade	24
Process for Approval and Management of Sub-Projects	25
Features of Sub-Loans	29
The roles and responsibilities of Participating Financial Institutions (PFI) under SREUP	29
The roles and responsibilities of Eligible RMG companies under SREUP:.....	32
The Participating Agreements between BB and PFIs:.....	34
The Sub-Loan Agreements between PFIs and end-borrowers:.....	34
Procurement Management	34
Compliance with the Eligibility Requirement, Guidelines and Banking Regulations.....	35

Statement and Reporting.....	35
Monitoring and Evaluation	36
Environmental and Social Risk Management Framework.....	36
Grievance Redress Mechanism.....	36

ABBREVIATIONS AND ACRONYMS

AFD	Agence Française de Développement (or French Development Agency)
BB	Bangladesh Bank (the Central Bank of Bangladesh)
BFIU	Bangladesh Financial Intelligence Unit (of BB)
BGAPMEA	Bangladesh Garments Accessories & Packaging Manufacturers & Exporters Association
BGMEA	Bangladesh Garment Manufacturers and Exporters Association
BKMEA	Bangladesh Knitwear Manufacturers and Exporters Association
BRPD	Banking Regulation and Policy Department (of BB)
CAMELS	Capital adequacy, Asset quality, Management, Earnings, Liquidity, Sensitivity (rating system used to rate financial institutions according to those 6 factors)
CAP	Corrective Action Plan
CIPC	Customers' Interest Protection Cell (of BB)
DEA	Detailed Engineering Assessment
DIFE	Department of Inspections of Factories and Establishments
E&S	Environmental and Social
ESRM	Environmental and Social Risk Management
ESMS	Environmental and Social Management System
EU	European Union
FATF	Financial Action Task Force
FICSD	Financial Integrity & Customer Services Department (of BB)
GFA	Grant Facility Agreement
GIZ	Gesellschaft für Internationale Zusammenarbeit (or German Technical Cooperation, Germany)
IG	Investment Grant
ILO	International Labour Organization
IRR	Internal Rate of Return
KfW	Kreditanstalt für Wiederaufbau (or KfW Development Bank, Germany)
KYC	Know-Your-Customer
NTPA	National Tripartite Plan of Action
PD	Project Director
PFIs	Participating Financial Institutions
PMU	Project Management Unit
RCC	Remediation Coordination Cell
RFP	Request For Proposal
RMG	Ready-Made Garments
SME	Small and Medium Enterprise
SMESPD	SME and Special Programmes Department (of BB)
TA	Technical Assistance
UN	United Nations

Introduction

“Program to Support Safety Retrofits and Environmental Upgrades in the Bangladeshi RMG Sector project (SREUP)” is initiated by the Government of Bangladesh to make the Bangladeshi RMG sector safer (fire, electricity and building structure safety), greener (reduction of pollution, improved resource and energy efficiency) and a decent place to work (social compliance) through providing financial and technical support. In particular, SREUP will aim at facilitating the access of funds for RMG factories to make investments related to safety retrofits and environmental upgrades, providing incentive to undertake such investments, and assisting RMG factories in implementing them. This will be financed by the AFD, KfW, EU and BB. Technical Cooperation Partner will be GIZ.

Bangladesh Bank (BB) intends to offer credit facility and technical assistance for Bangladeshi RMG manufacturers through PFIs to improve the safety retrofits of their factories and also to mitigate the environmental and social risk of their activities.

The amount of the Credit Facility will be 50 Million EURO (EUR 50,000,000) and provided to the Participating Financial Institutions (PFIs) for on lending to the RMG factories. In order to achieve the objectives, the project also aims to provide technical assistance for a total amount of 14.29 Million EURO (EUR 14,290,000) for the PFIs and the RMG factories in Bangladesh.

Objective

The Guideline for SREUP is intended to facilitate PFIs to understand policies and the mechanism of the Project, to process loan to the eligible end borrowers as per the guideline. This Guideline delineates the procedures and other relevant issues for effective implementation of the credit facility.

Please note during the period of its implementation, it is anticipated that the conditions underlying the Project may evolve (e.g. new regulatory or institutional arrangements may be introduced) and/or that Project implementation frameworks may need to be adjusted to reflect lessons learnt. This Guideline should therefore be updated from time-to-time, as necessary to reflect the changes, which have to be adopted by PFIs.

Project Duration

The Project will be implemented over a 5-year period from 2018 to 2022.

Project Location

The Project will target safety remediation and environmental upgrade of all registered (i.e. licensed) export-oriented RMG factories as a country-wide programme.

Project Component

The Project comprises two main components:

Component 1 – Investment

Component 2 – Technical Assistance

Component 1 – Investment

A. Credit Facility

The Credit Facility is an Apex-type line of credit, funded by a sovereign loan sanctioned by AFD to the GoB (represented by the MoF), on-lent to BB and channeled to the PFIs through the pre financing window of BB.

Eligible RMG companies will negotiate loans with PFIs for their eligible sub-projects investments based on Corrective Action Plans (CAPs) commitments (Accord, Alliance & NTPA), when existing or on investments plans to be pre-validated by a specifically independent technical assessor (ex-ante- appointed by the Project Authority) in order to be considered eligible to access the Credit Facility funds.

B. Performance-based grant mechanism

Investments grants will only be awarded to participating RMG factories having taken loans for safety remediation & environmental upgrades under this project and concerned PFIs according to a performance-based grant mechanism subject to the positive recommendation/report from Ex-post assessor appointed by the Project Authority.

The principle is that, Grants will be disbursed to the benefit of the Eligible Factory and of the loan-issuing PFI upon successful completion of the eligible sub-project investments, as a reward for the undertaken works and achievement of compliance with safety and/or environmental/social standards.

The verified achievement of the sub-project will result in the reduction of the principal amount of the loan by the following amount:

- 10% of the total loan amount related to safety remediation investments
- 20% of the total loan amount related to environmental and/or social investments.

The breakdown of investment grants among Eligible RMG Companies and PFIs would be 90:10. That means, 90% of Investment Grant will be awarded to Eligible Companies and PFIs will receive an amount equivalent of 10% of the Investment Grant to stimulate their participation in the Project subject to completion the project successfully.

An assessment will be conducted by an independent technical assessor (ex-post assessment) to validate the actual safety and environmental impact of the investment with the

performance indicators. If the assessment draws positive results, PMU will review and then the performance grant will be disbursed if satisfactory.

Borrowers have to apply for investment grant in time and not more than 6 months of investment completion period according to their investment plan after loan issuance.

The investment grant will be awarded to the Eligible Factory only as a deduction from the loan account. No fund will be transferred directly to the factory; instead, the corresponding amount will be deducted from their outstanding loan amount. Upon request by the PFI to the PMU, fund will be transferred to PFI account and PFI will make adjustment by crediting 90% of the grant amount directly to the loan account of the eligible factory.

If any RMG factory is unable to complete the sub-project investment as per the validated plan or is unable to complete the task as per this Guideline or failure to achieve planned objectives and commitments, no Grant will be awarded to that factory.

Component 2 – Technical Assistance (TA):

The Project intends to support PFIs and RMG companies with the objective to facilitate the investment process. The Main areas of support (Customized Services/Trainings to PFIs, factories and LSPs) will include support measures for factories and PFIs.

A technical cooperation will be provided to RMG companies and Participating Financial Institutions (PFI) to facilitate access to finance and secure compliance with adequate environmental and social standards under SREUP. Participating financial institutions (PFI) and RMG factories will get customized technical assistance and cooperation (2B TA & 2C TA) from this project.

For RMG companies the Consultants will support and facilitate investments for safety, environmental and social upgrades. This will include services along the whole investment cycle (i.e. ranging from planning to implementation of investments). For PFIs the Consultants will provide support to develop and implement an adequate Environmental and Social Risk Management System for them in line with ESRM Guideline of BB.

Technical Assistance activities are foreseen on these levels:

1. 2B-TA: Customized services to eligible RMG companies & PFIs

This Subcomponent of Technical Assistance (TA) is defined as 2B TA.

The activities of this sub-component (2B TA) will focus on supporting the RMG factories in designing and implementing their investment plan, as well as the commercial banks participating in the Project in their activities regarding financial management of sub-loans, environmental and social risk management, etc. Customized services to PFIs and RMG factories will provide:

A. Consultancy to support PFIs by further developing their ESMS activities

The objective of this consultancy is to provide support to PFIs to develop, implement and maintain an adequate Environmental and Social Management System (ESMS) for better assessing, mitigating, documenting and monitoring impacts and risks associated with their financing activities in line with ESRM Guideline of BB.

B. Consultancy to support and facilitate the investment cycle

The objective of this consultancy is to support and facilitate the investment cycle for safety; E&S upgrade investments of RMG companies. They support RMG companies to prepare their sub-projects investment plans, help them to be comply with safety and E&S standards and laws, to mitigate E&S impact of business activities, etc.

2. 2C TA: Technical cooperation to RMG companies and PFIs

This Subcomponent of Technical Assistance (TA) is defined as 2C TA.

The objective of this 3-year programme implemented by GIZ is to strengthen capacities to finance and implement finance safety remediation, environmental and energy efficiency investments in the RMG sector. The program will use a multi-level approach:

- On the micro level, it will support financial institutions, owners, management and technical experts of RMG companies, and local service providers (LSPs);
- On the interim level, it will collaborate with the RMG sector associations (e.g. BGMEA and BKMEA) and training institutions (e.g. BBTA, BIBM, BUET);
- On the macro level, it will directly involve, cooperate with and support BB; the DIFE could also be another macro-level partner on the RMG side.

The project has 3 main areas of intervention, with participants from the banking sector, stakeholders of the RMG sector and respective LSPs, which are:

- A. Enhance the financial sector's capacity to address funding needs of safety remediation and environmental upgrades of RMG factories.
- B. Increase the knowledge of RMG managers in the areas of safety remediation and environmental upgrades as well as on available financial options.
- C. Increase and strengthen the supply of services by LSPs, particularly with regard to cost- benefit analysis and investment planning.

Implementation Mechanism

1. Project Management Unit (PMU)

BB will implement this Project through a Project Management Unit (PMU) established within the SME & Special Programmes Department of the Bangladesh Bank. This PMU will be responsible for overseeing and management of the credit and coordinate with all

concerned entities to ensure the effective implementation the project and also reviewing the circular & guideline under SREUP.

2. Independent Technical Assessors

Independent Technical Assessors means a consulting firm having expertise and experience in safety and/or E&S assessment, which will be appointed by the project authority to conduct ex-ante and ex-post assessments according to an international competitive bidding process. They will guarantee the independency of the assessment before eligible RMG factories to access the Project funds (loan and grants).

Their roles will be to:

- Validate the investment plans of eligible RMG factories before they access sub-loans from PFIs through the Project (ex-ante assessment);
Note: Ex-ante assessments relating to safety remediation sub-projects investments strictly following the CAPs and/or Detailed Engineering Assessments (DEAs) of the Accord, the Alliance or the NTPA might not require on-site verification unless deemed appropriate by the Independent Technical Assessor. For sub-projects investments relating to E&S upgrade, or relating to safety remediation but not strictly following the CAPs and/or DEAs of the Accord, the Alliance or the NTPA, ex-ante assessments will require spot verification.
- Verify and validate satisfactory completion of the sub-projects investments financed through the Project funds as per the approved investments plans, before award of the performance-based investment grants (ex-post assessment);
Note: Spot verification is mandatory for all ex-post assessments, except when the RMG factory can evidence full CAP completion certificate from the Accord or the Alliance fully relating the concerned sub-project investment;
- Liaise with PMU only and to ensure timely performance of ex-ante and ex-post assessments before sub-loans to be sanctioned and upon completion of sub-projects investments, respectively;

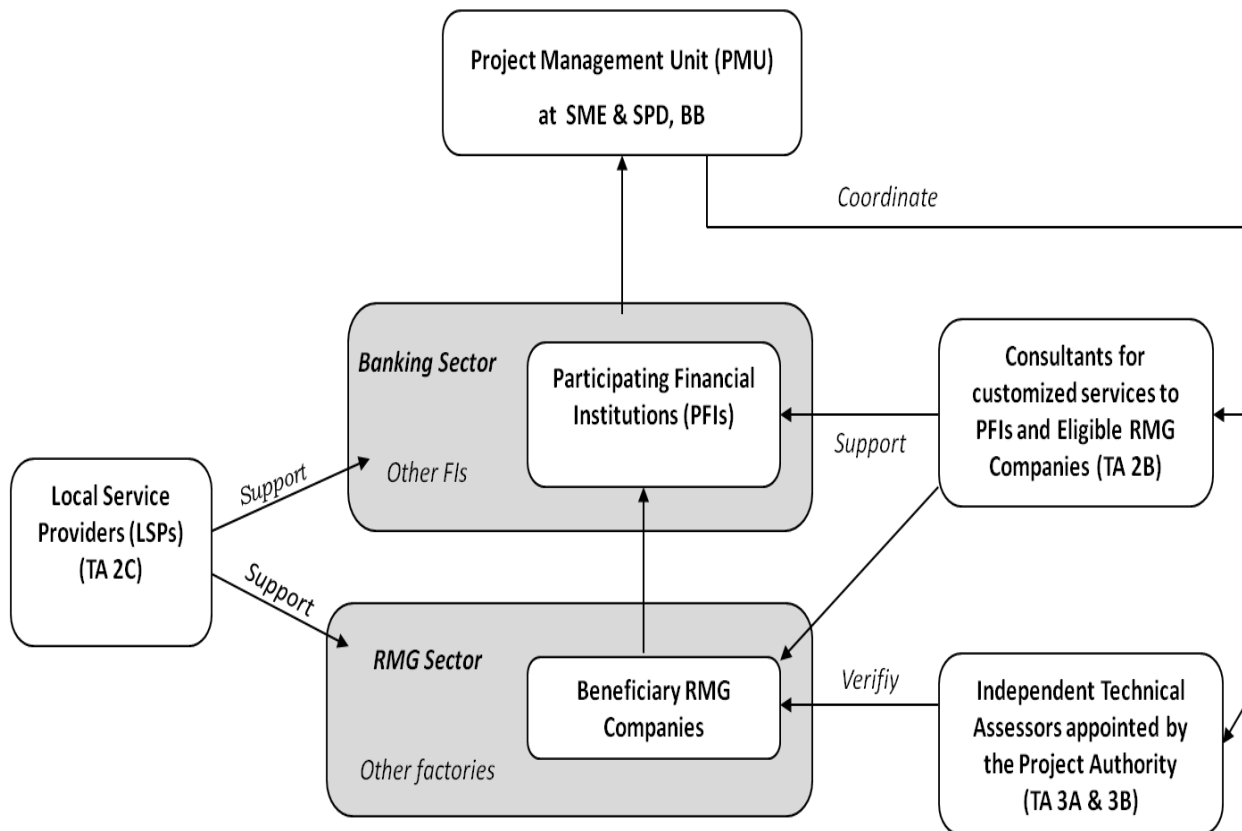
3. Consultant to provide customized services to PFIs and RMG factories:

Project will provide customized technical assistance and cooperation to participating financial institutions (PFI) and RMG factories. The technical assistance will be directly provided by the consultants appointed by the project authority for providing the support of 2B TA as mentioned above.

4. Local Service Providers

Local Service Providers (LSPs) are local consultant firms having expertise and experience in safety remediation and/or E&S upgrade in the RMG sector, which will receive specific train the trainer courses (under 2C TA) to deliver in their turn services to voluntary stakeholders of the banking and RMG sectors (with a focus on PFIs and RMG companies accessing the Project funds, as a first target group) in the framework of this Project.

Figure: Implementation Outline



The overall implementation can be summarized through the figure above, which focuses on arrangements and relationships among project components. It is also to be emphasized that the Technical Cooperation measures by GIZ does not limit to the PFIs and participating RMG companies, but target the banking and RMG sectors as a whole as mentioned above.

Selection of PFIs

Eligibility Criteria for PFIs

To apply to the request for proposal launched by BB, participate in the Project and access the Project funds, financial institutions will be required to meet and maintain the eligibility criteria as set forth in the SMESPD Circular no. 01 dated 31/03/2019

Process for Selection of PFIs

BB will have the responsibility of selecting PFIs through a request for proposal (RFP) to be organized as follows:

- At first, the PMU will call an open request for financial institutions to submit their participatory application based on the fulfilment of all eligibility criteria;
- Upon receipt of applications and letters of intent from financial institutions to participate in the Project, the PMU will verify whether the eligibility criteria are fulfilled and declare the financial institutions that are eligible to the Project;

- Participation Agreements will be signed between BB and each of the selected PFIs. PFIs will then be entitled to start sending applications for sub-projects financing.

Annual review or as and when necessary of eligibility criteria will be made to ensure continuation of participation status (PFIs will be required to provide updated information to the PMU, which will perform the review on this basis).

Features of On-Lending Loans (OLL)

PFIs will be entitled to ask BB to pre-financing their portfolios of sub-loans upon approval of sub-projects by the PMU as set forth in the SMESPD Circular no. 01 dated 31/03/2019. As a general principle, pre financing loans from BB to PFIs will be back-to-back with sub-loans from PFIs to eligible RMG factories. The features are:

- Maturity (i.e. tenor) and grace period of pre-financing loans will match with those of the respective sub-loans;
- Frequency of interest and principal installments under pre-financing loans will be synchronized with that of the respective sub-loans.
- Under the pre-financing scheme, PFIs makes disbursements to eligible RMG companies after receiving the corresponding funds from BB.
- Disbursement to the end-borrower will be specified by PFIs depending on the types of sub-loan and will be disbursed within 1 to 3 tranches usually or it can be disbursed as per clients need.

The on-lending rate of BB to PFIs follows the applicable rates for the Special Programmes implemented by BB. Interest rate to be paid by PFIs to BB under this Project is fixed at 3.5% per annum.

Interest and principal payments under each pre-financing loan shall be made in accordance with the repayment schedule of such loan, as prepared by the PFI and approved by the PMU. No overdue of interest and principal payment is expected.

Exceptionally, a PFI may request BB, through prior notice sent sufficiently in advance, to make delay in debiting the PFI's current account maintained with BB on the basis of valid ground like liquidity problem; cash reserve ratio (CRR) and statutory liquidity ratio (SLR) requirements etc.

On-lending Loan facilities will be made available to the PFI on "first come first served" basis and subject to the availability of balance in the Project Operating Account and the Revolving Fund Account within the Project period. 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.

In case the PFI is found to have received On-lending Loan under the scheme on the basis of such statement and information which may subsequently be proved false or incorrect, BB shall have the right to impose penal interest. In case of any overdue amount, PFIs will have

to pay a penalty of 2% of the sub Project on-lending for a maximum of 3 working days then a penalty at bank rate above the Project on-lending rate for subsequent days on due amount. In case of any false information, excess charge at the rate of the bank rate over the loan will be applied as a penalty on the loan amount. In such cases, BB will recover the entire outstanding loans with due interest plus applicable penal interest by way of debiting the current account of the concerned PFI maintained with BB. In case of loan prepayment, PFIs should not impose any charges/frees to the end borrower for the early settlement or prepayment, as well as BB will not impose any penalty to PFIs for this.

Eligibility Criteria for Participating RMG factories

The following entities are eligible to access the project funds for their eligible sub-projects:

- 1) RMG companies owning both a RMG factory and the building where the factory is located;
- 2) RMG companies owning a RMG factory, but not the building where the factory is located;
- 3) Owners of a building where at least one RMG factory is located

Provided:

- a) The RMG factory is registered as an export-oriented factory, as evidenced by the holding of a BGMEA, BKMEA or BGAPMEA membership, or is covered by any of 3 initiatives for safety remediation in the RMG sector (Accord, Alliance, NTPA);
- b) The RMG company is at least 3-year old with audited financial records;
- c) The RMG factory provides evidence of compliance with national tax regulation, and environmental certification from DoE;
- d) The RMG company is creditworthy with respect to the proposed sub-project;
- e) The RMG company undertakes to implement its sub-project in accordance with the agreed and validated investment plan (according to the agreed timeline, specifications and quality, and any mitigating measures and/or conditions set in such investment plan);
- f) The RMG company does not receive any other concessional financing for the implementation of this sub-project;
- g) As an additional requirement in the case #2 above, there is a long-term lease agreement in place between the building owner and the RMG company (written and signed lease agreement with min. 5 years left), in order to ensure the bankability of the sub-project as well as the commitment of the RMG company to stay in the long term in the retrofitted /upgrades premises once the sub-project has been completed.
- h) In case of multi-tenanted buildings, the eligibility of building owners will be appreciated based on the registration of a sufficient number of tenants as export-oriented factories along with the existence of a sufficient number of long-term lease agreements between those RMG companies and the building owner.

i) The RMG Company will be eligible for their voluntary investments (equity portion at least 10%) related to safety, environment and/or social upgrade to be financed under the Project funds.

Eligibility Criteria for Sub-Projects

1. Investments related to safety remediation:

○ Eligible RMG companies will be eligible to access the Projects funds for the following safety-related investments:

1. All investments related to the implementation of the CAPs and/or the DEAs as validated by any of the three initiatives for safety remediation (Accord, Alliance, NTPA);

Note: for their sub-projects to be eligible, eligible RMG companies shall undertake under the Project funds all remaining investments recommended by the CAP and/or DEA and needed to reach compliance with the initiative (and not only a part of them).

2. For factories covered by the NTPA that do not have any CAP/DEA in place, all investments related to fire safety (e.g. fire-fighting system with alarms, smoke detectors, extinguishers, fire-proof doors, sprinklers, etc.) electrical safety (sound electrical system) and structural safety (stable and robust building structures):
 - Aiming at reaching a level a compliance equivalent to those of the Common Standards (agreed by the Accord, the Alliance and the NTPA); and
 - Designed as per investments plans validated by the Independent Technical Assessors in order to reach the level of compliance mentioned above.

All eligible investments will have to be reviewed and validated by the Independent Technical Assessors, being said that ex-ante assessments relating to investments in the case #1 above might not require on-site verification (unless deemed appropriate by the Independent Technical Assessor). At contrary, on-site verification for investments in the case #2 above will be mandatory in the course of ex-ante assessments.

- As a general principle, the Project targets at first sub-projects relating with building retrofitting. Project funds shall be used only for the above-mentioned eligible investments: in particular, costs related to demolition or land acquisition / lot servicing shall not be financed under the Project.
- As a general principle, Project funds shall not be used for financing sub-projects already completed or on-going at the time of signing of the Participation Agreement among BB and the concerned PFI (the “PFI participation date”). Only sub-projects whose implementation has not started before the PFI participation date shall be financed under the Projects funds.

2. Investments related to environmental and social upgrade

○ *Only the eligible RMG factories which:*

- Have already completed their safety remediation and can evidence full compliance to the CAP (with positive review by the Independent Technical Assessor); or
- Which simultaneously undertake to conduct their safety-related investments under the sub project

A single RMG factory can benefit from Project funds for both safety- and E&S-related investments provided it fulfils one of the two above-mentioned conditions.

○ *Eligible RMG companies will be eligible to access the Projects funds for the following E&S-related investments:*

1. All investments aiming at improving energy efficiency through the use of new green equipments and technologies, in particular those reducing energy consumption while providing productivity gains.

They include but are not limited to the following:

- Process optimization enabling reduction of energy consumption through the replacement or upgrading of energy-intensive equipment (e.g. boilers, generators, compressors, water pumps, etc.);
- Improved heat and steam management: installation of waste heat recovery units, steam condensate recovery, on-site cogeneration / regeneration, etc.;
- Small decentralized renewable energy power generation (e.g: biomass, biogas);
- Efficient lighting and ventilation systems, energy management systems.

This category of investments shall satisfy the following quantitative criteria:

a. For energy efficiency :

- “a reduction of energy consumption of at least 20 % compared to the situation before investment
- An internal rate of return of investment in energy efficiency of a least 10 %.”

b. For wastewater recovery / effluent treatment / chemicals recovery : “a reduction of at least 50 % in the total load of the target pollutant of priority to the factory, as well as regulatory compliance with respect to that pollutant”

c. For solid waste management solutions : “move from non-compliant to compliant with regulations”

2. All investments aiming at improving the environmental footprint of the factory (i.e. contributing to improve the local or global environment and/or to reduce its degradation) through the use of environmental-friendly technologies, in particular

those reducing the consumption of natural resources and/or the generation of pollution.

They include but are not limited to the following:

- Wastewater recovery and treatment facilities (e.g.: effluent treatment plant);
- Safe disposal and recycling of chemicals and hazardous waste (e.g. caustic soda recovery);
- Waste management solutions: proper management of solid waste (e.g. decontamination and safe disposal of sludge), waste sorting, etc.

This category of investments shall satisfy the following qualitative criteria:

- Reduction in the consumption of natural resources;
- Reduction in the generation of all types of pollution (wastewater, chemical);
- Decontamination, improved waste management;

3. All investments aiming at improving the workplace environment and conditions.

They include but are not limited to the following:

- Upgrading of existing aeration /ventilation, Installation of air-conditioning;
- Improvement of toilets and fresh rooms;
- Construction of canteen/cafeteria, childcare facility, etc

This category of investments shall satisfy the following qualitative criteria:

- Prior consultation with employees and/or labour unions' representatives and evidence that their requests / expectations have been considered (priority, etc.);
- Objective: a majority of employees consider their workplace environment and conditions have been improved after the investment.

Sub-projects can be a combination of the above-mentioned eligible investments.

All eligible investments plans will have to be reviewed and validated by the Independent Technical Assessors through ex-ante assessments requiring on-site verification.

- As a general principle, Project funds shall not be used for financing sub-projects already completed / on-going at the time of signing of the Participation Agreement among BB and the concerned PFI (the "PFI participation date"). Only sub-projects whose implementation has not started before the PFI participation date shall be pre-financed under the Projects funds.

Process for Approval and Management of Sub-Projects

The approval and management of sub-projects will follow the following steps:

1. Upon request from RMG companies or spontaneously, PFIs identify among their clients potential beneficiaries and make a first assessment of their financing needs and creditworthiness with regards to the proposed investment projects, as well as a first screening of the companies' and proposed investments projects' eligibility to access the Project funds, including a preliminary assessment of their E&S performance in terms of compliance with national regulation.
2. Following the verification of the Project eligibility criteria and the pursuit of the loan appraisal as per its standard procedure, a PFI takes in-principle decision to provide financing to an eligible RMG company for the implementation of its eligible sub-project.
3. The PFI sends the application for sub-project approval to the PMU (addressing it to the Project Director along with all relevant documents for approval), which verifies that all Project eligibility criteria are met and proper safeguard procedures are followed.

If necessary, the PMU can take help of the Sustainable Finance Department of BB to ensure that the E&S compliance checks have been done by the PFI in accordance with the ESRM Guidelines.

4. At this stage ("*primary approval*" = confirmation of eligibility), the PFI suggests the eligible RMG company to utilize the assistance of the Sub-Component 2B TA to support the preparation of its investment plan. If needed, the PFI requests the PMU to arrange the support by appointing the technical assistant to the RMG factory.

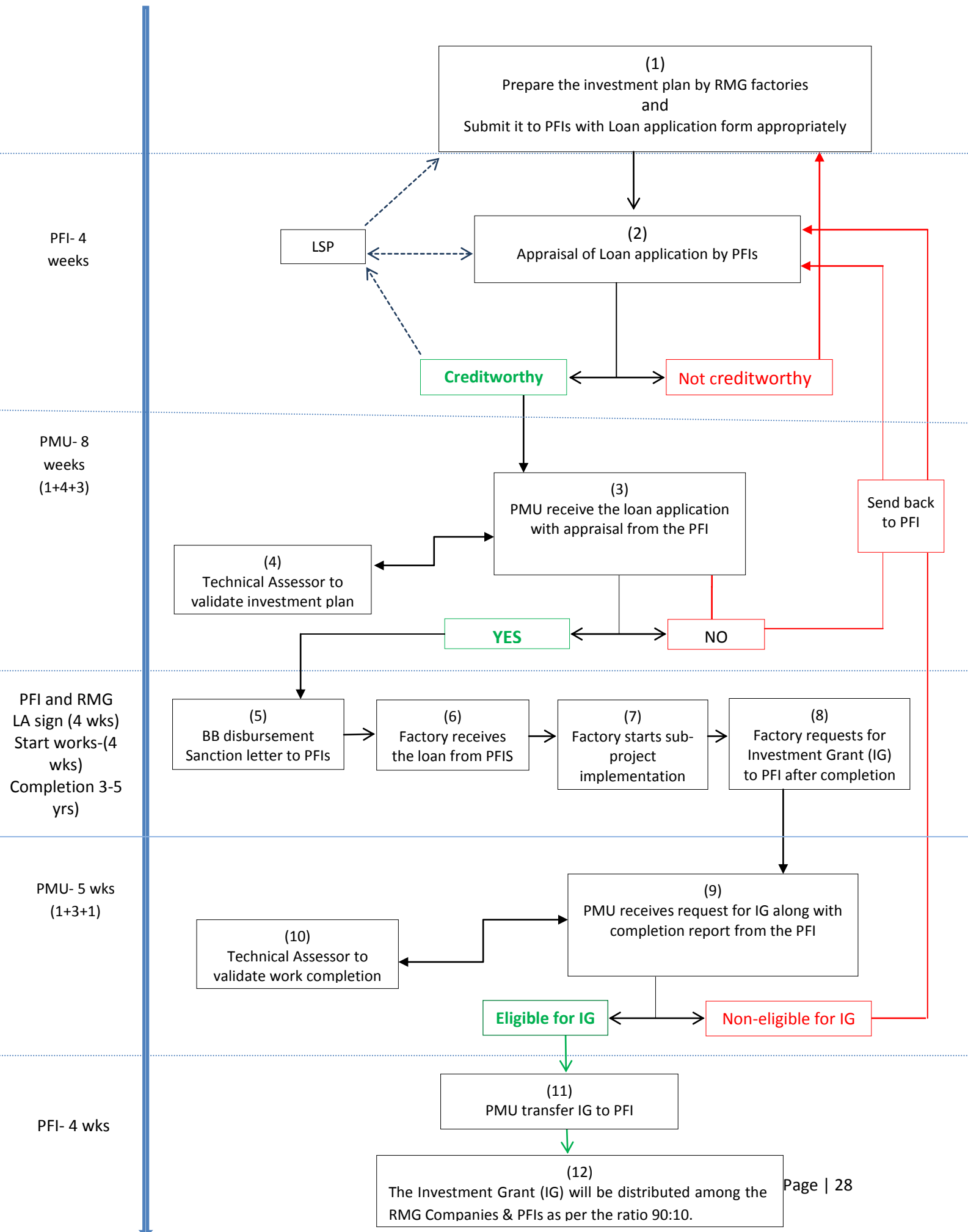
The PFIs also indicates to the eligible RMG factory any complementary safety, environmental or social, engineering or other assessment, study or design that is required to be carried out prior to loan approval.

5. Upon receipt of the investment plan along with any other required documents, the PFI finalizes its review and loan appraisal procedure, and if positive, gets credit approval to sanction a loan to the eligible RMG company for implementing its eligible sub-project (after obtaining satisfactory CIB report from BB and ensuring compliance to any other bank's norms and conditions);
6. After receiving the investment plan of the eligible RMG Company along with positive recommendation and notification of credit approval from the PFI, the PMU requests the Technical Assessor to perform the ex-ante assessment of the eligible sub-project.
7. After getting clearance from the Independent Technical Assessor, the PMU approves the sub-project and notifies the PFI, which notifies the eligible RMG Company.
8. The PFI negotiates and signs the sub-loan agreement with the eligible RMG company based on the Project requirement set out in features of Sub-Loans (Clause 05, SMESPD Circular no. 01 dated 31/03/2019);
9. The PFI disburses the funds to the RMG company as per the sub-loan agreement and according to this Guideline for SREUP;
10. The PFI maintains disbursement records and accounts of the sub-loan as well as supporting documents and bank account statements relating to disbursements, and send

copies to the PMU. It also ensures the recovery of interest and principal installments as per the sub-loan repayment schedule.

11. Once the sub-project has been completed, the RMG Company informs the PFI, which prepares and submits to the PMU an application for approval of investment grant award.
12. The PMU reviews the application then requests the Independent Technical Assessor to perform the ex-post assessment of sub-project completion.
13. After receiving confirmation from the Independent Technical Assessor that the sub-project has been satisfactorily implemented and completed, the PMU approves the award of the investment grant and notifies the PFI, which notifies the RMG Company.
14. The current account hold by the PFI at BB and the loan account hold by the RMG company at the PFI are adjusted accordingly, the amount of the investment grant awarded to the RMG company being deducted from the outstanding loan amount.
15. The Investment Grant (IG) will be distributed among the RMG Companies & PFIs as per the ratio 90:10.

Figure: Work Flow Diagram and Decision Matrix



Features of Sub-Loans

To ensure the Project is market-driven, all terms and conditions of sub-loans will be decided by PFIs based on their appraisal of sub-projects and end-borrowers' creditworthiness as well as their standard banking practice, credit procedures and commercial conditions. However, sub-loans will have to meet the conditions as set forth in SMESPD Circular no. 01 dated 31/03/2019.

All other terms and conditions (including gearing ratio debt/equity, collateral requirement, grace period, installment frequency and repayment schedule, etc.) will be decided by PFIs, who will ultimately bear the credit risk on the end-borrowers.

As a general principle, sub-loans will be sanctioned on the basis of market terms, without creating market distortion. PFIs will determine loan interest rates to sub-borrowers based on their cost of funds, operating costs plus a reasonable risk-adjusted spread and profit margin. Pricing will be determined according to market principles, be competitive with market rates but applicable interest rate could not exceed 7% per annum. No excessive fees (i.e. beyond usual bank and market practice) shall be applied by PFIs to end-borrowers under the Project.

The roles and responsibilities of Participating Financial Institutions (PFI) under SREUP

The PFIs will be a limited number of local commercial banks selected by BB through a request for proposal (RFP) procedure to serve as disbursing units of the Project funds to the RMG sector. The responsibility of PFIs is to ensure the proper management of the Project funds for financing sub-project investments.

The roles of PFIs will be to:

- Receive programme funds from BB;
- Determine creditworthiness of potential eligible sub-projects for their clients;
- Negotiate loans and disburse funds to support the eligible sub-projects of their clients that are creditworthy;
- Liaise with the Independent Technical Assessors through PMU to ensure timely performance of ex-ante and ex-post assessments before sub-loans to be sanctioned and upon completion of sub-projects investments, respectively,
- Process applications to the PMU for approval of investment grants upon completion of sub-projects investments;
- Manage loan principle and interest repayments;
- Prepare financial management reports, including both management of programme funds and repayment of loans;

- Liaise with the PMU to ensure timely communication of financial management and environmental reports concerning the financing of sub-projects investments;
- Cooperate with the PMU appropriate procedures for management of Project funds;
- With the support of the PMU, develop a communication strategy with respect to the Project;
- Participate to the Sub-Components 2B and 2C TA activities dedicated to the strengthening of the banks' environmental and social risk management (ESRM);
- Consolidate the application of market-based instruments in financing investments related to safety remediation and E&S upgrade under the Project, including the development of a pipeline of potential eligible sub-projects in coordination and with the assistance of the Component 2B TA.

Even if Sub-Component 2C TA program is expected to benefit first to PFIs, it will not be restricted to PFIs only: all banks and financial institutions in Bangladesh will be encouraged to participate and attend the sub-component activities (e.g. training sessions).

PFIs will make their own organizational arrangements for participating in the Project, or will manage the Project sub-loans through their existing arrangements.

The general duties of PFIs will be to:

- Communicate the availability, purpose and lending terms of Project funds to RMG companies who may wish to access the Project funds;
- ensure the timely disbursement of the Project funds to RMG companies that participate in the Project;
- Ensure timely repayment of Project funds from RMG companies that take out sub-loans under the Project;
- Maintain close coordination with the PMU to ensure the timely transmission of financial, creditworthiness and other data in accordance with the Project requirements;
- Coordinate with BB and other relevant parties as necessary to ensure the efficient and effective use and management of the Project funds.

Specifically, PFIs will undertake the following:

- Market Project funds to RMG companies;
- Prepare creditworthiness and eligibility checks on all RMG companies that present a potential eligible sub-project to be financed under the Project;
- Maintain filing systems (electronic and or paper) that include all relevant documents, invoices, records of loans and loan repayments and other information for all RMG companies whom they entitle access to Project funds;

- Following confirmation of the RMG company creditworthiness and analysis of the sub-project eligibility, request the PMU to review the application and:
 - Recommend whether the sub-project meets eligibility criteria for financing based on the documentation available;
 - Identify safety, environmental or social, engineering or other assessments, studies or designs that are required from the applicant prior to loan approval;
- Following notification from the PMU of sub-projects approval, proceed with extending loans to the concerned RMG companies according to the Project terms and conditions;
- Process debits from the sub project account in accordance with relevant documents;
- Adhere to the Project conditions and on-lending agreements with BB, including minimum duration of loans and /reduction of 10 / 20 percent of principal (respectively) upon verified satisfactory completion of the sub-projects investments;
- Liaise with the PMU to share information to confirm that goods and services financed under Project funds are in compliance with the investment plans validated by the Independent Technical Assessors (including specifications, quantities, etc.),
- Capture sufficient details of all transactions to allow their proper presentation in financial reports;
- Prepare, contribute to and review quarterly and annual project financial and monitoring reports (FMRs), audit reports, sub-projects completion reports and other Project reports as required by the PMU,
- Provide financial project data to the PMU in accordance with schedules agreed with the PMU to ensure that the reporting deadlines of the Project are achieved;
- Participate to the Sub-Components 2B TA activities dedicated to the strengthening of the banks' environmental and social risk management (ESRM) and collaborate with the Technical Assistant, as required, and participate to training sessions organized by the Sub-Component 2C TA dedicated to banks.

In order to ensure compliance with the recommendations of the Financial Action Task Force (FATF) in the field of anti-money laundering and combating terrorist financing, PFIs will carry out "Know-Your-Customer" procedures that fully comply with Bangladeshi law and the recommendations of the FATF. This will entail notably the identification of all client beneficiaries and effective client beneficiaries of the Project. All relevant information regarding these entities and persons shall be made available in the application forms. Such information shall be communicated to the Contributors upon their request. The Project reporting and auditing activities will document the respect of this obligation.

PFIs undertake not to establish business relationships under the Project with customers who are included on the sanction lists and exclusion lists of BB, United Nations, the European

Union, France, Germany and EU member states in relation to fraud, embargoes or the fight against terrorism.

The updated lists and further reference are available on the Internet under the following addresses:

- United Nations: <http://www.un.org/Docs/sc/committees/1267/1267ListEng.htm>
- European Union: http://ec.europa.eu/comm/external_relations/cfsp/sanctions/list/consolidated.htm
- France : http://www.tresor.economie.gouv.fr/4248_Dispositif-National-de-Gel-Terroriste
- Germany: <http://www.ausfuhrkontrolle.info/ausfuhrkontrolle//de/ebargos/index.html>

Moreover, in order to promote sustainable development, PFIs will ensure compliance with internationally recognised environmental and labour standards, including the fundamental conventions of the ILO and international environmental treaties.

To that effect, PFIs undertake to:

- Carry out their business in compliance with such international E&S standards in a manner consistent with the laws and regulations applicable in Bangladesh;
- Require the client beneficiaries to comply with such laws, regulations and standards in the operation of their businesses;
- Elaborate and implement the environmental and social liability policies; including the Environmental and Social Action Plans developed;
- Deliver to the PMU, on each anniversary date of the PFIs Agreement, an annual progress report regarding the implementation actions of its environmental and social liability policies together with next steps schedule.
- While the ESRM is pre-requisite for banks to participate in the Project, which PFIs not having adequate ESRM in place will commit on developing, implementing and maintaining such ESMS within a reasonable timeframe (18 months) with the support of Consultant 2BTA.

The roles and responsibilities of Eligible RMG companies under SREUP:

RMG companies that use Project funds must prepare and implement their safety remediation and/or environmental & Social (E&S) up gradation sub-projects investments in accordance with the objectives and the eligibility criteria of the Project and comply with regulatory requirements.

Their main roles will be to:

- Define and prepare descriptions of potential sub-projects for Project financing;
- Submit sufficient information to a PFI to determine the creditworthiness and eligibility of the sub-projects as per the Project's eligibility criteria;

- With the Component 2B TA dedicated to RMG companies, prepare a feasible investment plan and submit it to the PFI for its review and validation;
- Facilitate the ex-ante assessment (including on-site verification, if any) by the Independent Technical Assessor;
- Satisfy credit conditions of the PFI for the loan to be sanctioned (including equity contribution required to co-finance the sub-project investment, if any);
- Use the Project funds as per the approved investment plan;
- Facilitate inspection by the PFI and BB
- Provide reports to the PFI on the implementation of the sub-project investment plan, including self-monitoring progress reports and annual reports until full satisfactory completion;
- Make sure the investment plan is implemented in a timely manner and inform the PFI of any difficulties in the implementation of the sub-project investment plan;
- Inform the PFIs upon completion of the sub-project investment and facilitate the ex-post assessment (including the spot verification) by the Independent Technical Assessor for the performance-based investment grant to be awarded;
- Ensure compliance with regulatory requirements;
- Repay loans and associated interest according to established schedules.

RMG companies that access the Project funds will benefit from attractive financing to meet safety remediation and/or E&S upgrade objectives and meet regulatory and/or voluntary compliance requirements. In addition, they may benefit from technical assistance, positive public recognition of their actions and (depending on the sub-project they implement) reduced consumption of water, energy and/or other resources, and/or improved process efficiency.

In order to achieve these benefits, participating RMG companies will be required to:

- Provide sufficient technical and financial data to the concerned PFIs regarding their proposed sub-project to permit a creditworthiness and eligibility check of the company with respect to the sub-project;
- Undertake feasibility, detailed design and/or any other studies and prepare the necessary engineering and other designs to determine the feasibility of the proposed sub-project in accordance with the Project criteria and provide these to the PFI for evaluation;
- Work with the PFI (or the Sub-Component 2B TA dedicated to RMG factories) as necessary to ensure that their proposed sub-projects will fulfil the Project criteria and achieve the Project objectives;
- Agree with the PFI on an investment plan that has been previously validated by the Independent Technical Assessor;

- Implement their sub-projects in accordance with the agreed and validated investment plan (according to the agreed timeline, specifications and quality, and any mitigating measures and/or conditions set in such investment plan);
- Undertake procurement of works, goods and services in accordance with applicable standard market practice;
- Use the Project funds as per the approved investment plan;
- Operate and maintain the investments funded under the Project in accordance with good practice, manufacturer recommendations and equipment/parts replacement requirements in order to ensure that they achieve and maintain the Project objectives;
- Undertake self-monitoring in accordance with agreements with the PFI sufficient to demonstrate the results of the investments funded under the Project;
- Cooperate in good faith with any type of inspection assigned by PMU
- Provide data and information to the PFI regarding the implementation and operation of the sub-projects investments funded under the Project;
- Make all financial records related to their sub-projects available, upon request, to the PFI and auditors of the Project;
- Facilitate verification monitoring by the PFI and/or by BB of sub-project achievements as far as the Project performance indicators are concerned, if need be through access to the sub-project site;
- Undertake not to establish business relationships for investment funded under the Project with suppliers who are included on the sanction lists of BB, United Nations, the European Union, France, Germany and EU member states in relation to fraud, embargoes or the fight against terrorism.

The Participating Agreements between BB and PFIs:

After selecting for the credit facility, PMU will give the approval letter to the selected Bank and Financial Institutions. Separate Memorandum of Understanding (MoU) will be signed between the Bangladesh Bank and the selected PFIs named “Participating Agreement”. Once Participation Agreement was signed, the bank will start sending the applications for financing.

The Sub-Loan Agreements between PFIs and end-borrowers:

For each subproject, a sub-loan agreement shall be signed between the PFI and the concerned end-borrower to stipulates the applicable terms and conditions of the sub-loan as per standard practice of the PFI.

Procurement Management

Procurement of Goods, Services and Works financed under the facility will be carried out by the end borrowers following well established commercial best practices.

Eligible Expenditures:

The Project will finance the procurement of works and goods (including equipment) necessary to achieve agreed safety remediation and E&S upgrades objectives in creditworthy RMG companies. Within limitations identified below, procurement contracts may also include:

- Works which are integral to the implementation requirements of the safety remediation and E&S upgrades equipment;
- Equipment, inspection, supervision and commissioning costs where these are integral to the implementation requirements of the equipment.

Not eligible for financing under the Project are the general administration expenses, compensation, purchase of land and real property, salaries/wages, customs, taxes and duties, and items not directly related to the investment project.

Compliance with the Eligibility Requirement, Guidelines and Banking Regulations

The eligibility criteria and terms and conditions of sub-loan have been established in prior sections of this Guidelines and the SMESPD Circular no. 01 dated 31/03/2019. The PFI examines the Application and other documents submitted to check whether it complies with the qualifying conditions established by the Project. The PFIs and the End-borrowers are guided to abide by this Guideline for handling the project. In conducting the credit appraisal and approval of the Application, the PFI ensures that each loan is examined in compliance with the prevailing banking rules and regulations imposed by Bangladesh Bank. The procedures of the PFI established for appraising the normal credits are also be adopted for the purpose of the compliance with the Banking Regulations.

In addition, the PFI has to comply time to time with the all as well as latest Prudential Regulations by BB for all of their loans under this project.

Statement and Reporting

PFIs should prepare specific report for the use of funds under the Project and will be responsible for providing data on the sub-loans and investment grants disbursed from the Project funds.

PFI shall submit various statement and reports for each loans and overall project as stated by the *annexure 7* of SMESPD Circular no. 01 dated 31/03/2019. PFI also have to follow specific format and instruction for that reporting and statement given by PMU in time to time.

Monitoring and Evaluation

The PMU will monitor the outcomes from the utilization of fund under the facility periodically through the reports submitted by the PFIs. In addition to the off-site supervision, the PMU jointly with other relevant departments of BB will conduct surprise onsite inspection of the PFIs and the end-borrower to ensure the effective end-use of the fund.

Environmental and Social Risk Management Framework

The Guidelines on Environmental and Social Risk Management (ESRM) which have been developed by the Sustainable Finance Department of BB with the support of IFC and issued in February 2017 and whose implementation is mandatory for all banks and financial institutions (FIs) in Bangladesh from January 2018 will also applicable for this Project.

These ESRM Guidelines will be the master framework for the banks and FIs in assessing E&S risks in their credit/investment proposals/accounts, managing E&S risks in their credit/investment portfolio and establishing Environmental and Social Management System (ESMS) within their organization. This Guideline outline the detailed procedures for banks and FIs to identify, mitigate and monitor the potential environmental and social risks pertaining to the projects they finance.

PFIs under the Project must comply with the Environmental and Social Risk Management Framework, hence with the ESRM Guidelines. In particular, they will be responsible for regular supervision and monitoring of the implementation of any environmental and social management plan (ESMP) or mitigation measures under the sub-projects they finance.

They will have to submit reports to BB on the implementation of such plans by the end-borrowers accordingly to the agreement with PFIs.

In case any updated versions or amendments to the ESRM Guidelines are issued by BB, they will come as automatically applicable to PFIs under the implementation of this Project.

Grievance Redress Mechanism

In order to resolve the grievances related to the Project, BB will establish a dedicated Grievance Redress Mechanism to address the complaints regarding any issue, concern, problem, or claim (perceived or actual) that may arise out. The objective of this grievance redress system is to reduce risks related to the Project and to ensure an opportunity for expressing concerns.

In the first instance, all complaints have to be submitted to the Project Director (PD) of this Project. All grievances must be in writing (with an assigned number so as to enable tracking of complaints). Verbal and telephonic complaints and letters from fictitious names and address will not be considered. Complaints from individuals or parties who are not directly related with the Project (including its bidding processes) will not be recognized. The Project Management Unit (PMU) will deal with the complaints to adequately address the issue. The designated focal person of the PMU will coordinate the grievance redressing system.

The Project Director will consider the subject matter of the complaint and decide whether to reject the complaint or to take any corrective action. In case of rejection, the PD will communicate in writing with the concerned complainant stating reasons for the rejection of the complaint. In case of accepting the complaints, the PD will assign specific official(s) or team to resolve the issue and propose a response to the complaints. The PD will communicate the proposed response back to the complainant clarifying the corrective action (if any).

In addition, if one is not pleased with the judgment of PD/PMU then he/she may lodge his/her complain to the Customers' Interest Protection Cell (CIPC), a well-known Grievance Redressal Unit in the Financial Integrity & Customer Services Department (FICSD) of BB. CIPC of FICSD receives complains through [Complaint Submission Form](#) (available in the website of BB), letters, fax, e-mail and a dedicated Hot-Line number (16236).

If local communities or directly affected stakeholders approach a PFI with reasonable and responsible claims that an activity funded by a sub-loan under the Project has caused harm to them, their livelihoods, or environment, the PFI will work with the end-borrower to try to address the concerns in a reasonable and responsible manner. The PFI will report such complaints to the PMU as soon as possible. In addition, the PFIs shall inform the aggrieved party(ies) that, if the efforts by the end-borrower to resolve the issue are unsatisfactory, it/they have the right to bring their complaint(s) to the PMU.

Participation Agreement between Bangladesh Bank and PFIs

This Agreement is signed on the day of XXXX

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

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

Preamble

Whereas:

- (A) AGENCE FRANÇAISE DE DEVELOPPEMENT (AFD) has provided a loan fund of Euro 50.00 million to Government of Bangladesh (GOB) under Program to Support Safety Retrofits and Environmental Upgrades in The Bangladeshi Ready-Made Garments (RMG) Sector Project (SREUP) (Project No: **BD-2230322**) (Loan No. **CBD 1012 01 R**) to upgrade Bangladesh's RMG factories to international safety standards, to improve work conditions in these factories, and to assist with managing the environmental impact linked to this activity (hereinafter called the "Sub-Project") introduced by BB through its SMESPD Circular no. 01 dated 31/03/2019 to provide On-lending Loans to banks and financial institutions.
- (B) Bangladesh Bank has been entrusted with the responsibility to administer the PFIs under SREUP on behalf of GOB under the Subsidiary Loan Agreement (SLA) dated October 3, 2018 and any further amendments thereafter;
- (C) Through the issued Circular, interested banks and non-bank financial institutions (PFIs) are requested to enter into a participation agreement with BB to avail of the On-lending Loan facilities out of AFD fund; and
- (D) Whereas the PFI fulfills the eligibility criteria as set forth in clause 08 of SMESPD Circular no. 01 dated 31/03/2019 and is willing to avail 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:

Article – I

Definition:

Section 1

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 Programs Department of Bangladesh Bank.
- (c) “PMU” means a unit established at SMESPD of BB to specifically handle all relevant tasks related to the PFIs under SREUP.
- (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 SREUP.
- (g) “RMG” means Ready Made Garments.
- (h) “End-borrower” means an enterprise satisfying the criteria described in Article IV of this Agreement for receiving a Sub-loan from a PFI.
- (i) “Sub-loan” means a loan provided by the PFI to an end borrower as described in section 13 of this Agreement
- (j) “Sub-project” means an investment project of an end-borrower to be finance by a Sub-loan.

Article – II

Objectives and Target End-borrower:

Section 2

The PFI declares its commitments to the objectives to be achieved through SMESPD Circular no. 01 dated 31/03/2019 to this end, carries out its building safety lending program with due diligence and efficient & appropriate administrative, financial and banking practices.

Section 3

- (1) BB shall provide On-lending Loan against the loans made or to be made by the PFI to an end-borrower mentioned below to upgrade Bangladesh's RMG factories to international safety standards, to improve work conditions in these factories, and to assist with managing the environmental impact linked to these activities.
- (2) The PFI will be required to submit Demand Promissory Note amounting equal to the disbursement each time it receives pre-financing under this Agreement. Demand Promissory (DP) Note to be submitted to ensure repayment (principal as well as interest) against sanctioned amount. That DP Note will be treated as current security to BB on the following grounds:
 - a. Total receivable amount at present or later on; and
 - b. All expenses, charges and costs (if any) that is repayable as per law enacted by BB.

Article – III

Terms and Conditions for the On-lending Loans to the PFIs

Section 4

- (1) The On-lending Loan will be available only for loans having following features:
 - (a) The maximum loan amount: BDT-equivalent of EUR 1 million, to be extended to EUR 3 million in the cases of (ii) major environmental upgrade or (iii) any other duly justified and documented case;
 - (b) Maturity: 3 to 5 years, to be extended to 7 years in the cases of (ii) major environmental upgrade or (iii) any other duly justified and documented case;
 - (c) A factory may avail both the facilities provided they are eligible for investments; at first safety and then environmental and social up gradation
 - (d) Factories who have already completed their safety remediation and can show the evidence of full compliance to the CAP (with positive review by

the Independent Technical Assessor); or which simultaneously undertake to conduct their safety-related investments under the project will be eligible for their voluntary investments related to environment and/or social upgrade to be financed under the Project funds.

- (e) The repayment of the loan will start after a certain grace period and to be repaid on quarterly installments as per nature of loan. The grace period will be determined by the PFIs based on the projected timing of the cash inflows of individual projects as per their usual standard banking practice.
 - (f) Fees: as per standard practice of the PFI; applicable fees will have to be disclosed to BB in the sub-project application and duly justified if not aligned with the usual bank and market practice. No excessive fees (i.e. beyond usual bank and market practice) shall be applied by PFIs to end-borrowers under the sub-project.
 - (g) The due installments will be recovered from the PFIs current account maintained with Bangladesh Bank as per the repayment schedule. Necessary initiatives will be taken to recover the loans by the Participating Financial Institutions at field level. There will be no relationship between the recoveries of disbursed amount by the Participating Financial Institutions with repayment to BB.
 - (h) The PFIs will require providing a debit authority to Bangladesh Bank for realizing the due installments at the time of the signing this agreement. Letter of Authority will be handed over to the Participating Financial Institutions to maintain the General A/c with BB for debiting the repayment of installments of the pre-finance facility.
- (2) The loan extended by BB to the PFIs shall be repaid by the PFI in accordance with fixed repayment schedule. PFIs will be entitled to ask BB to pre-financing their portfolios of sub-loans upon approval of sub-projects by the PMU and signature of sub-loan agreements with eligible End borrowers.

As a general principle, pre-financing loans from BB to PFIs will be back-to-back with sub-loans from PFIs to eligible end borrowers:

- a) Maturity (i.e. tenor) and grace period of pre-financing loans will match with those of the respective sub-loans;
- b) Frequency of interest and principal installments under pre-financing loans will be synchronized with that of the respective sub-loans.
- c) Under the pre-financing scheme, PFIs makes disbursements to eligible RMG companies after receiving the corresponding funds from BB.

- d) Disbursement to the end-borrower will be specified by PFIs depending on the types of sub-loan and will be disbursed within 1 to 3 tranches usually or it can be disbursed as per clients need.
- e) Interest and principal payments under each pre-financing loan shall be made in accordance with the repayment schedule of such loan, as prepared by the PFI and approved by the Project management Unit (PMU) of BB. No overdue of interest and principal payment is expected.

Section 5

BB shall charge interest on the loan extended to the PFIs at 3.50% per annum. The PFI shall apply the interest rate maximum of 7% per annum on the Sub-loans made to the End-borrowers.

Section 6

On-lending Loan facilities will be made available to the PFI on “first come first served” basis and subject to the availability of balance in the Project Operating Account and the Revolving Fund Account within the Project period. 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 PFIs 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. 01 dated 31/03/2019.

Section 8

In case the PFI is found to have received On-lending Loan under the scheme on the basis of such statement and information which may subsequently be proved false or incorrect, BB shall have the right to impose penal interest. In case of any overdue amount, PFIs will have to pay a penalty of 2% of the sub Project on-lending for a maximum of 3 working days then a penalty at bank rate above the Project on-lending rate for subsequent days on due amount. In case of any false information, excess charge at the rate of the bank rate over the loan will be applied as a penalty on the loan amount. In such cases, BB will recover the entire outstanding loans with due interest plus applicable penal interest by way of debiting the current account of the concerned PFI maintained with BB. In case of loan prepayment, PFIs should not impose any charges/frees to the end borrower for the early settlement or prepayment, as well as BB will not impose any penalty to PFIs for this.

Section 9

- (1) In case 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 a PFI fails to perform any of its obligations under this Participating Agreement, BB shall have the right to suspend or terminate the right of the PFI to use the proceeds of the Credit Facility made available to it to make Eligible Loans or declare it due and payable.

Section 10

The PFI shall be duly established and operating under the laws of the Country and shall:

- a) Maintain a sound financial structure, 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 RMG 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 SMESPD Circular no. 01 dated 31/03/2019;
 - (ii) Supervise and monitor the proper use of the Sub-loans by End-borrowers; and

Section 11

The PFI shall:

- (i) carry out “Know-your-Customer” procedures that fully comply with Bangladeshi law and the recommendations of the Financial Action Task Force (FATF) standards on money laundering and terrorism financing, including the Financial Sanctions List issued by the United Nations, the European Union, Germany and France;
- (ii) issue a certificate of compliance with the laws against money laundering and the financing of terrorism in the form provided in Schedule 1 below;

- (iii) carry out activities under the Project in accordance with appropriate technical, economical, financial, managerial, environmental and social standards and practices, including in conformity with: (A) the investment and lending policies and procedures referred to the SMESPD Circular no. 01 dated 31/03/2019; (B) the ESRM standards as set forth by the ESRM Guideline of Bangladesh Bank.
- (iv) make one or more Eligible Loan(s) to one or more Eligible Companie(s) and signed Eligible Loans Agreements on the terms and conditions set forth in SMESPD Circular no. 01 dated 31/03/2019;
- (v) exercise its rights in relation to each such Eligible Loan in such manner as to protect its interests and the interests of the GoB, the BB and AFD, comply with its obligations under its respective Participating Agreement, and achieve the purposes of the Project;
- (vi) not assign, amend, abrogate or waive any of its agreements providing for an Eligible Loan, or any provision thereof, without the prior consent of BB;
- (vii) supervise, monitor and report on the activities to be carried out under an Eligible Investment by each Eligible Company in accordance with the provisions of the SMESPD Circular no. 01 dated 31/03/2019
- (viii) furnish all such information to BB, as may be reasonably requested with regard to the progress of the activities under the Project, the performance of its obligations under its respective Participating Agreement, and other matters relating to the purposes of the Project;
- (ix) PFIs should prepare specific reports for the use of funds under the Project and will be responsible for providing data on the sub-loans and investment grants disbursed from the Project funds. PFIs should submit to BB all the reports as set forth in the SMESPD Circular no. 01 dated 31/03/2019
- (x) Promptly inform the BB of any condition which interferes or threatens to interfere with the progress of its activities under its respective Participating Agreement.

Article – IV

Terms and conditions of the Sub-Loans (Eligible Loans to End borrowers)

Section 12

The PFI 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 AFD, and comply with the obligations under the Participating Agreement in order to achieve the purpose of the sub-project including the right to:

- (a) inspect by BB itself or jointly with representatives of the EDPs (European Development Partners), such constructions, goods and sites, works,

equipment 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 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 PFI; and
- (d) cause to comply with all the environmental regulations established by ESRM Guidelines for environmental and social consideration;

Section 13

Sub-loan under the sub-project shall be used by End-borrowers exclusively for the purpose of the Sub-project, as set forth in the SMESPD Circular no. 01 dated 31/03/2019. Conditions for Eligible End-borrowers:

- a) RMG companies owning both a RMG factory and the building where the factory is located;
- b) RMG companies owning a RMG factory, but not the building where the factory is located;
- c) Owners of a building where at least one RMG factory is located.
- d) The RMG factory is registered as an export-oriented factory, as evidenced by the holding of a BGMEA, BKMEA or BGAPMEA membership, or is covered by any of the three initiatives (ACCORD, ALLIANCE and NTPA) for safety remediation in the RMG sector
- e) The RMG company is at least 3-year old with audited financial records;
- f) The RMG factory provides evidence of compliance with national tax regulation, and environmental certification from DoE

Section 14

The PFI shall require Eligible Companies to:

- (i) Carry out the Eligible Investment financed out of the proceeds of an Eligible Loan with due diligence and efficiency and in accordance with sound technical, economical, financial, managerial, environmental and social standards and practices, including those set forth in the SMESPD Circular no. 01 dated 31/03/2019;

- (ii) Maintain the documents about the investment and provide information any time
- (iii) Accept that the PFI may inspect, by itself or jointly with BB and representatives of AFD, if the AFD shall so request, such goods and the sites, works, plants and construction included in the activities to be financed out of the proceeds of an Eligible Loan, the operation thereof, and any relevant records and documents; and
- (iii) Provide all such information as the BB shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Eligible Company and to the benefits to be derived from the activities financed out of the proceeds of a Sub-loan

In addition, the PFI shall require that, the goods, works and services to be financed out of the proceeds of the Eligible Loan shall be procured in accordance with standard procurement practices prevailing in the market.

Article – V

Miscellaneous

Section 15

i) This Agreement shall come into force and effect on the date of its signing by the two parties.

ii) This Agreement shall stay in force until BB notifies the PFI the termination of granting On-lending Loan facilities. This notification shall be made in writing at least three months before it becomes effective.

Section 16

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

For and on behalf of
BANGLADESH BANK

Witness:

1.

(Authorized Representative)

2.

For and on behalf of

(PFI Name)

(Authorized Representative)

SCHEDULE 1 - Anti-Money Laundering and Anti-Terrorism Financing Certificate

[on the Participating Financing Institution's letterhead]

I, the undersigned [*Surname, Name*], Compliance Director / Inspection Director / Internal Audit Director of [*name of the Participating Financing Institution*], certify that:

- the procedure entitled [*●name of the procedure*], dated [*●date*] is the operational internal procedure of [*name of the Participating Financing Institution*] with respects to anti-money laundering and anti-terrorism financing requirements;
- this procedure, currently applicable within [*name of the Participating Financing Institution*], extends to all the activities of our institution and complies with the forty (40) recommendations of the FATF;
- [*name of the Participating Financing Institution*] systematically takes into account in its systems, the updated financial and commercial sanctions lists adopted by the United Nations, the European Union and France, and controls its clients and operations in accordance with such lists.
- [*name of the Borrower*] is subject to control by a national supervising authority ([*name of the authority*]) and has not been subject to any investigation by the latter raising deficiencies within its anti-money laundering and anti-terrorism financing prevention procedures.
- [*name of the Participating Financing Institution*] trains each year [*number*] staff to handle anti-money laundering and anti-terrorism financing matters.
- [*name of the Participating Financing Institution*] has, within the past year
 - suspended [*number*] operations on suspicions of money laundering and terrorism financing,
 - refused [*number*] operations on suspicions of money laundering and terrorism financing,
 - filed [*number*] suspicious transaction reports with the financial intelligence unit of [*pays*];
- the internal audit / inspectorate of [*name of the Participating Financing Institution*] regularly controls the implementation by the bank's staff of its anti-money laundering and anti-terrorism financing operational procedure.

Signed at [*●lieu*], on [*●date*]

Form No. A: SUB-PROJECT SUMMARY REPORT

On-going Sub-Project Summary Report

(Period Covered: From DD/MM/YYYY To DD/MM/YYYY)

SL. No.	SREUP_PMU's OLL No.	PFI's Sub-Loan No.	Name of PFI	Branch	End-Borrower		Investment		Finance					PFI Sub-Loan										Social & Environment										
					Name	Representative (person & number)	Women Entrepreneur (Yes or No)	Purpose (safety/ Environment/ Social)	Specification of purpose	Location	Date of Sub-Loan Agreement (dd/mm/yy)	PFI's Sub-Loan Amount (Tk.)	End-borrower's Own Funds (Tk.)	Total Sub-project Cost (Tk.)	PMU's OLL Amount (Tk.)	Financing Ratio of OLL to Sub-project Cost (%)	Other source, if any	Interest Rate for end borrower (% Per Annum)	Maturity (months)	Total No. of Installment	Grace Period, If any (month)	Installment no.	Latest Disbursed Date of Sub-loan (dd/mm/yy)	Amount Disbursed during the Period (Tk.)	Cum. Amount Disbursed (Tk.)	Latest Repayment Date (dd/mm/yy)	Amount Repaid during the Period (Tk.)	Cum. Amount Repaid (Tk.)	Balance of Sub-loan at the End of the Period (Tk)	Collateral (Land / Movable, etc)	Category (A/B/C)	Negative Impact, if any		
1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22	23	24	25	26	27	28	29	30	31	32	33		
Total																																		

Note *1: Enter all the Sub-loans approved since the beginning of the Project including those that have been fully repaid in sequential order. The data for disbursement, repayment and the balance should be updated as of the end of the period covered by the Report.

(continued from the above).

SL. No.	SREUP_PMU's OLL No.	PFI's Sub-Loan No.	Name of PFI	Branch	Name of End-borrower	On-lending Loan (OLL)							
						Disbursed amount under OLL (TK)	Cumulative Disbursed Amount under OLL (Tk)	Disbursement Date	Repayment amount (TK)	Cum. Total Amount Repaid (Tk)	Repayment Date	Outst'ding Balance of OLL at the End of the Period (Tk)	Outst'ding Balance of Arrear at the End of the Period (Tk)
Total													

Date:

(Guide for preparation)

1. Data to be collected from PFIs through Form A, "PFI Report on On-going Sub-project Summary". Please make sure that PFIs report all of the Sub-loans approved since the beginning of the Project including those that have been fully repaid.
2. List up all of the Sub-projects reported by PFIs into the Table.
3. Enter the PMU's OLL Number to each of the Sub-projects reported by PFIs, if such numbers were not quoted in the report from PFIs.
4. Calculate and enter the "Total" wherever required.
5. The contents of PFIs' reporting should be same with what have been described in their Application for OLL.

Name of PFI:

(Name & Title)