Bangladesh Bank

(Central Bank of Bangladesh)
Head Office
Motijheel, Dhaka-1000
Bangladesh
www.bb.org.bd

SME & Special Programs Deptt.
FSPDSME-PIU

SMESPD Circular Letter No. 02 /2016

Date: 03 May 2016

CEO/MD
All Accredited Banks and Financial Institutions under FSPDSME Project
Head Office, Dhaka

Dear Sirs,

Provision of providing 100% refinance/ pre-finance to women led enterprises under the Two Step Loan(TSL) Fund of JICA assisted Financial Sector Project for the Development of Small and Medium Sized Enterprises [FSPDSME], BD-P67.

Please refer to SMESPD circular letter No. 02/2013 dated 22 October 2013 and the revised Operating Guidelines of FSPDSME Project attached with the circular letter. With the aim of extending financial support to women led enterprises for productive investments following existing policy of women entrepreneurship development of Bangladesh Bank (BB), necessary amendments in the Operating Guidelines have been made. Details are explained below-

01. The Two Step Loan (TSL) fund of JICA assisted FSPDSME project is providing medium and long term loans to micro, small and medium enterprises for their productive investment. The Operating Guidelines of the FSPDSME project allow providing refinance or pre-finance of maximum 83% of the sub-loan or maximum 75% of the sub-project. Additionally, the Operating Guidelines does not allow financing to women led enterprise at preferential interest rates like other refinancing schemes of BB. It is, therefore, observed that women entrepreneurs do not show much interest to take financing under this project.

    In order to motivate women entrepreneurs in productive investments, the Steering Committee of the project in its 5th meeting held on 06 January 2016 decided to allow providing 100% refinance/ pre-finance at preferential interest rate [bank rate + maximum 5% spread] in line with prevailing women entrepreneurship development strategy of BB. The FSPDSME project was successfully closed on 31 March 2016. Refinancing and pre-financing to participating financial institutions (PFIs), however, is being continued from the revolving fund account of the project.

02. The relevant sections of Operating Guidelines [e.g. Section 3.1: Terms and Conditions of Sub-Loan (page-17); Annex-VI: Terms and Conditions of Sub-Loans (page-63); Annex-VII: Terms and Conditions of On-Lending Loans (page-64)] have been revised to include the provision of refinancing/ per-financing to women led enterprises at preferential terms and conditions.

03. The relevant modified sections of the Operating Guidelines are annexed herewith as Attachment-1. Incorporating all the modifications and exceptions, a revised version of the Operating Guidelines has also been prepared which is available at our website (http://www.bb.org.bd/mediaroom/circulars/circulars.php).

04. All other rules and procedures of the Operating Guidelines will remain unchanged.

05. This circular letter will be treated as effective from the date of issue.

Please acknowledge receipt.

Yours sincerely,

Attachment: As mentioned above.

(Swapan Kumar Roy)
GM, SMESPD & PD, FSPDSME
Tel: 9530502

Attachment-1

The relevant Modified Sections of the Operating Guideline (OG) of FSPDSME Project.

Section-3.1: Terms and Conditions of Sub-loan (page 17& 18 of OG)

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 (such as gender) 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:

- ✓ 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[1]and cost of such activities as resettlement and other compensation cost and refinancing for existing loans[2].
- ➲ Exception is applied for women led enterprises and the RMG & 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 only be applicable for women led enterprises and the RMG & 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[3] and managerial standards, including the implementation of the action plan for displaced persons, and to maintain adequate records;

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[1] Sub-loan proceeds may be used for initial working capital, which is associated with the investment loan.

[2] 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.

[3] established by GOB

(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.

ANNEX-VI: Terms and Conditions of Sub-loans (page-63 of OG)

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[4] [*Exception: For the RMG and Knitwear sector safe working environment program the maximum loan tenure will be 15 years including a grace period of maximum 2(two) years.*]
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 form women led enterprises and the RMG & 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 only be applicable for women led enterprises and the RMG & 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.

[4] based on actual results of sales and production

ANNEX- VII: Terms and conditions of On-lending Loans (page-64 of OG)

Lender	BB
Borrower	Eligible PFIs
Amount	Within 75% of the cost of Sub-project i.e., about 83%[5] of Sub-loan amount (Tk. 166,666 – Tk. 41,666,666[6]) 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[7] [*Exception: For the RMG and Knitwear sector safe working environment program the maximum loan tenure will be 15 years including a grace period of 2(two) years.]*
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 only be applicable for women led enterprises and the RMG & 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.

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