



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

SME & Special Programs Department  
JICA-PIU (UBSP)

SMESPD Circular No. 03 /2016

Dated : 25 September 2016

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

Dear Sirs,

Two step loan fund for refinance or pre-finance under JICA assisted  
Urban Building Safety Project (UBSP, BD-P84).

01. Government of the People's Republic of Bangladesh has constituted a Two Step Loan (TSL) fund in Bangladesh Bank to strengthen the building safety of RMG factories in Dhaka, Narayanganj and Gazipur District and Chittagong City through short to long term finance under the "Urban Building Safety Project (UBSP, BD-P84) sponsored by Japan International Cooperation Agency (JICA) of Japan.
02. The fund size of the project (for private component) is 4240 million Japanese Yen including a technical assistance component. The principal component of the fund is Two Step Loan of 4129 million Japanese Yen.
03. Under the Urban Building Safety Project (hereinafter referred to as "the Project"), JICA will lend the concessional ODA loan to the government for the provision of Two Step Loan for private building safety (hereinafter referred to as "TSL"). The TSL will in turn be on-lent to the Participating Financial Institutions (hereinafter referred to as "PFIs"), which would then re-lend the fund to end-borrowers.
04. Under the Two Step Loan Fund, Participating Financial Institutions (PFIs) will be provided with refinance or pre-finance for on lending to building safety of RMG factories for short to long term duration.
05. An Operating Guidelines comprising policies and procedures of this fund has been developed. The fund will be governed by this Operating Guidelines. Operating Guidelines can also be downloaded from our website.

## 06. Terms and conditions of Sub Loans:

- i. Lender: The eligible banks and financial institutions (PFIs);
- ii. Borrower: Clients of PFIs (Clients of PFIs are factory owners and building owners of RMG factory).
- iii. Location: RMG factories located in Dhaka, Narayangonj and Gazipur District and Chittagong city areas.
- iv. Currency: Bangladesh Taka.
- v. Amount: Size of the sub-loan shall be within 350 million BDT. (With the approval of PMC-1 more than 350 million BDT may be approved as sub-loan).
- vi. Nature of works: Fire Safety, Retrofitting, Rebuilding and Relocation of Garments buildings.
- vii. Maturity:

### **1) Retrofitting:**

- Grace Period: Maximum 2 years.
- Repayment period: Maximum 10 years including the grace period.

### **2) Rebuilding:**

- Grace Period: Maximum 3 years.
- Repayment Period: Maximum 15 years including grace period.

### **3) Relocation:**

- Grace Period: Maximum 3 years
- Repayment Period: Maximum 15 year including grace period.

### **4) Fire Safety Only:**

- Grace Period: Maximum 2 years.
- Repayment Period: Maximum 10 years including the grace period.

### **5) Working Capital:**

- Facilities will be available during the suspension of the business by construction of seismic resistant building.
- PFIs will justify the necessity of working capital applied for.
- The amount of working capital should not exceed 10% of total Sub-loan for retrofitting / rebuilding/ relocation/fire safety.

- viii. Interest rate: To be determined by the arrangement between PFI and End borrower. But it must not exceed 6%.
- ix. Size of Sub Loan: Shall be within 350 million BDT. With the approval of PMC-1, more than 350 million BDT may be sanctioned.
- x. Currency: Bangladesh Taka (BDT)
- xi. Credit Risk: PFIs will bear the credit risk of end-borrowers.
- xii. Collateral: Decided by PFIs following BB's prudential guidelines.

**07. Terms and conditions of On Lending Loan (OLL):**

- i. Lender: Bangladesh bank.
- ii. Borrower: Eligible PFIs.
- iii. Amount: Synchronized with that of the respective Sub-loan.
- iv. Currency: Bangladesh Taka.
- v. Grace period: Synchronized with that of the respective Sub-loan.
- vi. Working Capital: Synchronized with that of the respective Sub-loan.
- vii. Maturity: Synchronized with that of the respective Sub-loan.
- viii. Interest Rate: 2% which is approved by the Ministry of Finance.
- ix. Repayment: Quarterly. Interest will be calculated on accrual basis.
- x. Penalty: In case of overdue amount PFIs will pay a penalty of 3% above the interest rate of OLL for maximum of 3 working days and a penalty of 5% for subsequent days on due amount.
- xi. Collateral: Current Account of concerned PFI maintained at Bangladesh Bank.
- xii. Panel interest: In case of false information, excess charge at the rate of the bank rate over the OLL interest rate will be applied as penalty on the amount of OLL.

**08. Eligibility of the applicants:**

- a) An owner of building and factory for RMG.
- b) An owner of RMG factory.
- c) A building owner of RMG factory.
- d) Hold the membership of BGMEA, BKMEA, BGAPMEA.
- e) Private commercial building owner with the approval of PMC-1.

**09. Eligibility Criteria for accreditation as PFIs:**

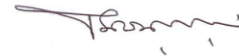
- i. License from Bangladesh Bank.
- ii. Minimum 3 years operational experiences.
- iii. Commitment to finance in building safety.
- iv. Meet the minimum Capital Adequacy requirement.
- v. The percentage of NPL should not exceed 10% of loan portfolio.
- vi. Minimum Satisfactory CAMELS ratings.
- vii. Complied with prudential guidelines.

10. Interested Banks and NBFIs to participate in this fund should apply as per the application format annexed with this circular by 19 October 2016. Application received after this deadline will not be entertained.

11. Interested Banks and NBFIs are requested to go through the Operating Guidelines before applying. Application must include all required information and documents stated in the application format and in the Operation Guidelines. Incomplete applications will not be entertained.

Please acknowledge the receipt.

Yours Sincerely



Attachment: As mentioned.

( Swapan Kumar Roy)  
Project Director  
Urban Building Safety Project  
&  
General Manager, SMESPD

( )

CEO/MD

Bank/NBFI Name

## Annex-A to Accreditation Application Form

Name of Bank/ Financial Institution:

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

# Financial Statements

Annex-B to Accreditation Application Form

Name of the Bank :

[in billion taka]

	2013	Shares of Total (%)	Growth (%)	2014	Shares of Total (%)	Growth (%)	2015	Shares of Total (%)	Growth (%)	2016*	Shares of Total (%)	Growth (%)
<b>Balance Sheet</b>												
Cash & cash equivalents												
Short term liquid assets												
Loans(net)												
Others assets												
<b>Total Assets</b>												
Deposits from customers												
Due to banks & NBFIs												
Other liabilities												
<b>Total liabilities</b>												
Share capital												
Other reserves												
Retained earnings												
<b>Total equity</b>												
<b>Total equity &amp; liabilities</b>												
<b>Income Statement</b>												
Interest income												
Non-interest income												
<b>Total revenue</b>												
Net interest income												
Net non-interest income												
<b>Total net revenue(Operating income)</b>												
Operating expenses												
Contingent risk expenses												
Net non-operating income												
<b>Profit before tax</b>												
<b>Net Profit</b>												
<b>Operational ratios</b>												
Capital adequacy (>10%)												
Liquidity												
Single borrower exposure (<20%)												
Forex exposure (<40%)												
Loan to deposit ratio(LDR)												
NPL												
ROE												
ROA												

\*Provide reference date

## Contact Details of Relevant Personnel

## Annex-C

Name of the Bank

[illegible]





**GOVERNMENT OF THE PEOPLE'S REPUBLIC OF  
BANGLADESH**

**JAPAN INTERNATIONAL COOPERATION AGENCY  
(JICA)**

**(BD-P84)**



**OPERATING GUIDELINES  
FOR  
URBAN BUILDING SAFETY PROJECT  
IN BANGLADESH**



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



## TABLE OF CONTENTS

<b>Introduction .....</b>	<b>10</b>
<b>Purpose of Operating Guidelines .....</b>	<b>10</b>
<b>Modification of Operating Guidelines .....</b>	<b>11</b>
<b>PART 1: POLICY .....</b>	<b>12</b>
<b>1. Two-Step Loan Project .....</b>	<b>12</b>
1.1. Objective of the Project .....	12
1.2. Scheme of the Project .....	12
1.3. Management Structure of the Project .....	12
1.3.1. Steering Committee (SC) .....	12
1.3.2. Project Management Committee (PMC) .....	13
1.3.3. Ministry of Finance (MOF)/ the Executing Agency for the TSL Project .....	14
1.3.4. Bangladesh Bank (BB)/ the Implementing Agency for the TSL Project .....	14
1.3.5. Project Implementation Unit of BB (JICA-PIU) .....	14
1.3.6. Project Implementation Unit PWD (PWD-PIU) .....	16
1.4. Governing Agreements for the TSL Project .....	16
1.4.1. Loan Agreement (L/A) between JICA and GOB .....	16
1.4.2. Project Memorandum (P/M) between JICA and GOB .....	17
1.4.3. Administration Agreement between MOF and BB .....	17
1.4.4. Participation Agreement between BB and PFI .....	17
1.4.5. Sub-loan Agreement between PFI and End-borrower .....	18
<b>2. Eligible End-borrowers and Sub-Projects .....</b>	<b>19</b>
2.1. Eligibility Criteria for End-borrowers .....	19
2.1.1. Legal Status .....	19
2.1.2. Size of Sub-loan .....	19
2.1.3. Eligible Geographical Location .....	19
2.1.4. Ineligible Investments for financing under the TSL Project .....	19
2.2. Financial and technical Procedures for the End-borrower .....	20
2.3. Social and Environmental Consideration .....	23
2.4. Technical Standard .....	23
<b>3. Financing Scheme .....</b>	<b>24</b>
3.1. Terms and Conditions of Sub-loan .....	24
3.2. Terms and Conditions of On-lending Loan (OLL) .....	25
3.3. Revision of Terms and Conditions .....	25
3.4. Financing Method .....	25
<b>4. Participating Financial Institution (PFI) .....</b>	<b>26</b>
4.1. Accreditation Criteria for PFI .....	26
4.2. Accreditation Assessment .....	26
4.3. Accreditation Procedure .....	26
4.4. Entry or Exit of PFIs .....	26
4.5. Loss of Eligibility .....	26
<b>5. Sub-loan by PFI .....</b>	<b>27</b>
5.1. Pre-conditions for Sub-loan .....	27

5.2.	Application for Sub-loan to be prepared by the End-borrower .....	27
5.3.	Credit Appraisal and Approval of Sub-loan by PFI.....	27
5.3.1.	Credit Appraisal.....	27
5.3.2.	Collateral .....	28
5.3.3.	Credit Approval Process.....	28
5.4.	Credit Risk Management at PFI .....	28
5.5.	Compliance with the Eligibility Requirement and Operating Guidelines .....	29
5.6.	Compliance with the Banking Regulations .....	29
5.7.	Social and Environmental Consideration .....	30
5.8.	Sub-loan Agreement .....	30
5.9.	Disbursement of Sub-loan .....	30
<b>6.</b>	<b>On-lending Loan by JICA-PIU .....</b>	<b>31</b>
6.1.	Pre-conditions for OLL .....	31
6.2.	Preparation of Application for On-lending Loan by PFI.....	31
6.2.1.	Examination of the Application for On-lending Loan by JICA-PIU .....	31
6.3.	Disbursement of OLL.....	32
6.4.	Amendment of Application for On-lending Loan .....	32
6.5.	Suspension of Disbursement under the TSL Project .....	32
<b>7.</b>	<b>Debt Servicing, Rescheduling and Event of Default.....</b>	<b>33</b>
7.1.	Payment of Interest and Principal on OLL.....	33
7.2.	Prepayment of Principal .....	33
7.2.1.	Sub-loan .....	33
7.2.2.	On-lending Loan .....	33
7.3.	Rescheduling .....	33
7.3.1.	Sub-loan .....	33
7.3.2.	On-lending Loan .....	33
7.4.	Non-payment of Sub-loan on Due Dates .....	34
<b>8.</b>	<b>Fund Management .....</b>	<b>35</b>
8.1.	Accounts Established .....	35
8.2.	Receipt of Funds from JICA .....	35
8.3.	Flow of Funds.....	36
8.4.	Revolving Fund Account.....	36
8.5.	Management of Funds and Fund Accounts .....	36
8.6.	Management Information System (MIS) .....	36
<b>9.</b>	<b>Promotion of the TSL Project .....</b>	<b>37</b>
9.1.	Publicity Campaign .....	37
9.2.	Advisory Services .....	37
9.3.	Capacity Building of PFIs' Staff .....	37
<b>10.</b>	<b>Monitoring .....</b>	<b>38</b>
10.1.	Monitoring by PFI.....	38
10.2.	Measurement of Monitoring Indicators.....	38
10.3.	Monitoring of Social and Environmental Impact .....	38
10.4.	Monitoring and Coordination by JICA-PIU.....	38
10.5.	Project Status Report .....	38
10.6.	Monitoring by Project Management Committee 1 (PMC1).....	39
10.7.	Inspection for Building Safety .....	39
10.8.	Impact Assessment .....	40

<b>11. Reporting .....</b>	<b>41</b>
11.1. On-going Sub-Project Summary Report .....	41
11.2. Current Repayment and Over-due Status Report .....	41
11.3. Quarterly Progress Report .....	41
11.4. Project Completion Report .....	41
11.5. Audit Report .....	41
11.6. PFI Performance Review .....	41
11.7. PFIs' Annual Reports .....	42
<b>PART 2: PROCEDURE .....</b>	<b>43</b>
<b>12. Participating Financial Institution (PFI) .....</b>	<b>43</b>
12.1. Accreditation Procedure .....	43
12.1.1. Application by banks and financial institutions .....	43
12.1.2. Due diligence of banks and financial institutions by JICA-PIU .....	43
12.1.3. Monitoring and annual review of PFI compliance with accreditation criteria .....	43
<b>13. Sub-loan by PFI .....</b>	<b>44</b>
13.1. Application for Sub-loan to be prepared by the End-borrower .....	44
13.2. Credit Appraisal and Approval of Sub-loan by PFI .....	44
13.2.1. Credit Appraisal and Verification of Compliance with the Regulations .....	44
13.2.2. Verification of the Compliance with the Eligibility Requirement of the Project .....	45
13.3. Compliance with the Eligibility Requirement and the Operating Guidelines .....	45
13.4. Compliance with the Banking Regulations .....	45
13.5. Social and Environmental Consideration .....	46
13.6. Sub-loan Agreement .....	46
13.7. Disbursement of Sub-loan .....	46
13.7.1. Disbursement under Refinancing Method .....	47
13.7.2. Disbursement under Pre-financing Method .....	47
<b>14. On-lending Loan by JICA-PIU .....</b>	<b>48</b>
14.1. Pre-conditions of OLL .....	48
14.2. Preparation of Application for On-lending Loan by PFI .....	48
14.3. Examination of the Application for OLL by JICA-PIU .....	48
14.4. Disbursement of OLL .....	49
14.5. Amendment of Request for On-lending Loan .....	50
<b>15. Debt Servicing, Rescheduling and Event of Default .....</b>	<b>51</b>
15.1. Notice of Due Dates on On-lending Loan .....	51
15.2. Payment of Interest and Principal on On-lending Loan .....	51
15.3. Prepayment of Principal .....	51
15.3.1. Sub-loan .....	51
15.3.2. On-lending Loan .....	51
15.4. Rescheduling .....	52
15.4.1. Sub-loan .....	52
15.4.2. On-lending Loan .....	52
15.5. Non-payment on Due Dates .....	53
15.5.1. Sub-loan .....	53

<b>16. Fund Management .....</b>	<b>54</b>
16.1. Accounts Established .....	54
16.2. Receipt of Funds from JICA .....	54
16.3. Flow of Funds.....	55
16.4. Management of Funds and Fund Accounts .....	55
16.5. Management Information System (MIS) .....	55
<b>17. Promotion of the Project .....</b>	<b>57</b>
17.1. Publicity Promotion.....	57
17.2. Advisory Services .....	57
17.3. Capacity Building of PFIs' Staff .....	57
<b>18. Monitoring.....</b>	<b>58</b>
18.1. Monitoring by PFI.....	58
18.2. Measurement of Monitoring Indicators.....	58
18.3. Monitoring of Social and Environmental Impact.....	59
18.4. Monitoring by JICA-PIU .....	59
18.5. Periodical Reporting.....	59
18.6. Monitoring by Project Management Committee 1 .....	60
18.7. Inspection .....	60
18.8. Impact Assessment .....	60
<b>19. Reporting .....</b>	<b>61</b>
19.1. On-going Sub-projects Summary Report .....	61
19.2. Current Repayment and Over-due Status Report .....	61
19.3. Quarterly Progress Report .....	61
19.4. Project Completion Report.....	61
19.5. Audit Report.....	61
19.6. PFI Performance Review .....	61
19.7. PFIs' Annual Reports.....	62

## ANNEXES

ANNEX I: Requirement for Modification of Policy Guidelines.....	63
ANNEX II: Key Players and Funds Flow of the TSL Project (Disbursement).....	64
ANNEX III: Key Players and Funds Flow of the TSL Project (Repayment).....	65
ANNEX IV: Participation Agreement .....	66
ANNEX V: Ineligible Investment Activities List.....	72
ANNEX VI: Terms and Conditions of Sub-loans .....	74
ANNEX VII: Terms and conditions of On-lending Loans.....	76
ANNEX VIII: Accreditation Criteria for PFIs .....	77
ANNEX IX: Accreditation Assessment Form.....	79
ANNEX X: Financial Statements .....	80
ANNEX XI: JICA Guidelines for Environmental and Social Considerations .....	81
ANNEX XII: Technical Guidance for the TSL Project.....	83

## FIGURES

Figure 1.1: Organogram of Project Implementation Unit (JICA-PIU) .....	14
Figure 2.1: Flowchart of Financing and Technical Process of UBSP Loan .....	22

## TABLES

Table 2-1: <b>Error! Bookmark not defined.</b> Financial and Technical Procedures .....	22
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## **ATTACHMENT**

### **Attachment A: PFI Applications for On-Lending**

- Form No. A-1: Application for On-Lending Loan (OLL)
  - A-1: Instructions for Preparation of the Application for On-lending Loan
  - A-1 List of Candidate Entries for Preparation of the Application for OLL
- Form No. A-2: Request for Disbursement of On-Lending Loan
  - A-2: Instructions for Preparation of the Request for Disbursement of OLL
- Form No. A-3: Receipt of Disbursed Funds under On-Lending Loan
- Form No. A-4: Report on Disbursement of Sub-loan under Pre-financing Method
- Form No. A-5: Request for Amendment of the Terms and Conditions of Loan
- Form No. A-6: Report of Pre-payment of Sub-loan
- Form No. A-7: Notice of Non-Payment of Sub-loan
- Form No. A-8: Request for Rescheduling of On-Lending Loan (OLL)
- Form No. A-9: Monitoring Report of Sub-Project

### **Attachment B: Notices of On-Lending**

- Form No. B-1.1: Notice of Compliance of the Application for OLL under Pre-financing Method
- Form No. B-1.2: Notice of Non-Compliance of the Application for OLL
- Form No. B-2: Notice of Disbursement and Repayment Schedule
- Form No. B-3: Notice of Acceptance of the Request for Amendment
- Form No. B-4: Notice of Change of Terms and Conditions approved for OLL
- Form No. B-5: Notice of Due Dates of Principal and Interest
- Form No. B-6: Receipt of Payment of Principal and/or Interest
- Form No. B-7: Notice of Non-Receipt of Payment for Principal and/or Interest
- Form No. B-8: Receipt of Overdue Payment of Principal and/or Interest
- Form No. B-9: Acknowledgement of Notice of Prepayment
- Form No. B-10: Receipt of Prepayment and Claim for Accrued Interest
- Form No. B-11: Approval for Rescheduling of On-Lending Loan (OLL)

### **Attachment C: Statements and Reports**

- Form No. C-1: Statement of Designated Account, Project Operating Account and Revolving Fund Account
- Form No. C-2: Statement of Expenditure
- Form No. C-3.1: On-going Sub-Project Summary Report
- Form No. C-3.2: PFI Report on On-going Sub-Project Summary
- Form No. C-4.2: PFI Report on Monitoring Indicators
- Form No. C-5.2: PFI Report on Current Repayment and Overdue Status

### **Attachment D: MIS for JICA-PIU**

- Form No. D-1: Report of New On-Lending Loan (OLL) Registered
- Form No. D-2: OLL Status Report
- Form No. D-3.1: List of Applications for OLL Rejected



Form No. D-3.2: List of Pending Applications for OLL  
Form No. D-4: Monthly Activity Report (New Approval)  
Form No. D-5: Monthly Activity Report (Disbursement)  
Form No. D-6: Monthly Activity Report (Recovery of Principal)  
Form No. D-7: Monthly Activity Report (Interest received)  
Form No. D-8: Monthly Activity Report (Fund Flow)  
Form No. D-9: Monthly OLL Performance  
Form No. D-10: Due Date Table of Total OLLs to All PFIs  
Form No. D-11.1: Due Dates of Principal and Interest in Next Month  
Form No. D-11.2: Due Dates of Principal and Interest in the Month after Next  
Form No. D-12.1: PFI-Wise Due Dates of Principal and Interest in Next Month  
Form No. D-12.2: PFI-Wise Due Dates of Principal/ Interest in the Month after  
Next

Attachment E: Work Flow for Sub-loan and On-Lending

Chart A. Workflow for Sub-loan Appraisal and Disbursement <Refinance Method>  
Chart B. Workflow for Sub-loan Appraisal and Disbursement <Pre-finance Method>  
Chart C. Workflow for Debt Servicing  
Chart D. Workflow for Prepayment  
Chart E. Workflow for Rescheduling  
Chart F. Workflow for Monitoring

## ABBREVIATIONS

BB	Bangladesh Bank
BFID	Bank and Financial Institutions Division
BGMEA	Bangladesh Garment Manufacturers & Exporters Association
BKMEA	Bangladesh Knitwear Manufacturers & Exporters Association
BNBC	Bangladesh National Building Code
DIFE	Department of Inspection for Factories & Establishments
DOE	Department of Environment
GOB	Government of Bangladesh
JICA	Japan International Cooperation Agency
JPY	Japanese Yen
L/A	Loan Agreement
MOF	Ministry of Finance
MOHPW	Ministry of Housing and Public Works
ODA	Official Development Assistance
PFI	Participating Financial Institution
PIU	Project Implementation Unit
PMC	Project Management Committee
P/R	Progress Report
PWD	Public Works Department
RFA	Revolving Fund Account
RMG	Ready Made Garment
RPC	Review Panel Committee
DA	Designated Account
SC	Steering Committee
SME	Small and Medium-sized Enterprise
Tk	Bangladesh Taka
TRP	Technical Review Panel
TSL	Two-Step Loan
UBSP	Urban Building Safety Project
USD	United States Dollars

## DEFINITIONS

Assessment rate of security property .....	a coefficient for the calculation of a security value, which is less than 1, set by each credit institution
End-borrower .....	an owner of RMG factory or a building owner of RMG factory, and an owner of commercial building accepted by Project Management committee 1
Financed Property .....	property obtained by using a Project sub-loan
On-Lending Loan .....	a loan for the fund of a sub-loan, lent by BB to a PFI
On-Lending Loan agreement .....	a contract of an on-lending loan between BB and PFI
Participation agreement.....	a basic agreement of on-lending loans between BB and PFIs
The Project .....	Urban Building Safety Project financed by JICA
Property value .....	a value of a property used for security
Revolving fund account .....	a bank account held by BB for managing funds of the Project
RMG factory .....	the factory of Ready Made Garment and knit ware sectors
Sub-loan .....	a loan lent by a PFI to an end-borrower to finance an eligible sub-project
Sub-Project.....	objective RMG factory or building for building safety by retrofitting, rebuilding or relocation under the Project

## Introduction

### Purpose of Operating Guidelines

Bangladesh is located on the plate, boundary region among Eurasia, India and Burma plates, which is one of the most seismic active zones in the world, and seven (7) large earthquakes happened over the past 150 years. Among others, the Dhaka District, Gazipur District, Narayanganj District and Chittagong City, where political, economic and cultural function concentrated on, are the area with higher buildings in a dense city. However, most of the buildings have not complied with Bangladesh National Building Code (BNBC), resulting in little resilience to the earthquake.

According to the projection, of the Comprehensive Disaster Management Program (CDMP), Ministry of Food and Disaster Management, Government of Bangladesh (GOB), 2009, it is estimated that, if the earthquake with magnitude 6 would happen beneath Dhaka, 56% of the buildings will be beyond economic repair, citizens in Dhaka will be killed more than 150,000 and 5% of GDP will be lost.

In addition to the natural disaster mentioned above, it is also underlined that five (5) large scale building collapse without tremors happened in 10 years due to the negligence of BNBC like illegal expansion of the building, inadequate design quality and so forth.

GOB developed Bangladesh National Building Code (BNBC) in 1993 and revised 2006 which requires the standard of general building requirement including seismic design. In spite of BNBC, the enforcement of BNBC has not been progressed as expected. According to the sampling survey for Ready Made Garment (RMG) factories by GOB (RMG Sector Safe Working Environment Program), 65.5% of the RMG factories do not comply with BNBC. The reasons of the little enforcement of BNBC are inadequate technical capacity and construction management, limited hand-in reference to ensure BNBC, limited mechanism to instruct the quality of buildings and so on.

Under such circumstances, JICA and PWD have implemented “Project for Capacity Development on Natural Disaster-Resistant Techniques of Construction and Retrofitting for Public Buildings (CNCRP)” from 2011 to 2015 to develop the seismic designing capacity of PWD. Also, GOB and JICA have initiated Ready Made Garment (RMG) Sector Safe Working Environment Program since October 3, 2013, which provide the preferential loans to retrofitting, rebuilding and relocation of RMG factories with an amount of one billion Bangladesh Taka (BDT). Through these programs, it has been identified that 1) the existing public facilities have not been much paid attention to BNBC, and the public buildings which require emergent rescue and evacuation function should be strengthened immediately followed with BNBC, and 2) RMG and knitwear factories, which contribute to 78.5% of the total export (Bangladesh Economic Review 2012, Ministry of Finance (MOF/GOB)), have urgent demand for building safety to avoid same experiences of the recent huge building collapse.

RMG Sector Safe Working Environment Program has identified that the 18 RMG factories have strong demand in strengthening their factories out of 55 eligible applications under the Program, which will cost around 37 million USD. In addition to this immediate demand, there are further demands for building safety, namely 2<sup>nd</sup> immediate demand is 52 RMG factories and 3<sup>rd</sup> immediate demand is 130 RMG factories from the estimation through RMG Sector Safe Working Environment Program. In total, it is estimated that 130 RMG factories are willing to strengthen their buildings in RMG sector in Bangladesh.

Under the Urban Building Safety Project (hereinafter referred to as “the Project”), JICA will lend the concessional ODA loan to the government for provision of Two-Step Loan (TSL) for private building safety measures (hereinafter referred to as “TSL Project”) and for improvement of public building safety through project loan. The TSL will in turn be on-lent to the Participating Financial Institutions (hereinafter referred to as “PFIs”), which would then re-lend the fund to end-borrowers. The funds available under the TSL Project would be passed on to the PFIs on a back to-back basis, i.e., the PFIs would repay to the government on essentially the same loan repayment schedule as for the underlying sub-loan. That is why this type of ODA loan is called as “two-step loan (TSL)”.

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

### **Modification of Operating Guidelines**

Any change in the Operating Guidelines, which would materially change the structure and/or nature of the TSL scheme, shall be made by the JICA-PIU with approval by Project Management Committee 1<sup>1</sup>, and upon reporting to the organization as specified in each of the Guidelines. The authorized person or organization and the reporting requirements are summarized in the Annex I.

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<sup>1</sup>Project Management Committee 1 is to supervise the activities on private building safety; Project Management Committee 2 is responsible for supervising public building safety.

## **PART 1: POLICY**

### **1. Two-Step Loan Project**

#### **1.1. Objective of the Project**

The objective of the Project is to strengthen the building safety in Urban Cities by financing loans for building safety for private buildings through Participating Financial Institutions (PFI), and by improving the building safety for public buildings, thereby contributing to improvement of the social vulnerability of urban cities.

The TSL Project aims at strengthening the building safety of RMG factories and private buildings in the Dhaka District, Gazipur District, Narayanganj District and Chittagong City through (i) provision of market-based long-term finance to building safety in private sector, and (ii) provision of technical assistance to banks and financial institutions, thereby contributing to sustainable growth of the RMG industry and improvement of the social vulnerability of urban cities in Bangladesh through short to long-term finance.

#### **1.2. Scheme of the Project**

The TSL Project is an on-lending loan scheme to provide short to long-term loans to strengthen the RMG factories and private buildings through the accredited PFIs. JICA provides the Loan funds in Japanese Yen (JPY) to the Government of Bangladesh (hereinafter referred to as “GOB”) represented by its Ministry of Finance (hereinafter referred to as “MOF”). The Borrower shall authorize the Bank and Financial Institutions Division of the Ministry of Finance (hereinafter referred to as “MOF-BFID”) as the executing agency to implement the TSL Project. The JPY funds provided are exchanged to Bangladesh Taka (Tk) by MOF-BFID and on-lent to Bangladesh Bank (hereinafter referred to as “BB”) as the implementing agency. The fund maintained by BB will be used by PFIs for their financing short to long-term loans to RMG factories and private building owners (hereinafter referred to as “Sub-loans”) for strengthening of their factories and buildings, such as retrofitting and rebuilding, relocation and short-term loans for fire safety facilities and equipment and the working capital during the construction of factories and buildings. In practice, BB will act as an Implementing Agency responsible for the administration of the Project on behalf of MOF-BFID, and make On-Lending Loans to PFIs (hereinafter referred to as “OLLs”), which, in turn, will make Sub-loans to end-borrowers.

The amount of the Loan is JPY 12,086 million in total, of which JPY 4,129 is earmarked for TSL Project.

#### **1.3. Management Structure of the Project**

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

##### **1.3.1. Steering Committee (SC)**

###### **1) Objectives**

To supervise the overall project progress and effective coordination among various stakeholders for smooth coordination and management of the Project

###### **2) Scope**

To coordinate, monitor and guide overall implementation mechanism including the inter-

ministerial coordination when required higher level intervention

3) Frequency

Ad-hoc basis

(The principal responsibility of implementation of the Project is given to PMC, therefore S/C is held ad-hoc basis when needs any intervention from higher authority.)

4) Composition of S/C

No	Organization	Title in organization	Title
1	MoHPW	Secretary	Co-Chairman
2	BFID	Secretary	Co-Chairman
3	Prime Minister's Office	Representative	Member
4	BB	Representative	Member
5	PWD	Chief Engineer/Project Director	Member
6	DoA	Chief Architect	Member
7	RAJUK	Chairman	Member
8	HBRI	Director	Member
9	DIFE	General Inspector	Member
10	ERD	Representative	Member
11	Planning Commission	Representative	Member
12	IMED	Representative	Member
13	BB	Project Director of JICA-PIU	Member
14	FSCD	Director General	Member
15	JICA	Representative	Observer
16	Concerned Development Partners (World Bank)	Representative	Observer
17	PWD	Project Director of PWD-PIU	Member Secretary

**1.3.2. Project Management Committee (PMC)**

The objective of Project Management Committee (PMC) is to guide proper implementation of the two project components; two separate project management committees (PMC) will be established in order to supervise the activities of each component. As a matter of practical convenience, PMC for Component 1 (Private Building Safety) shall be called as PMC 1, and PMC for Component 2 (Public Building Safety) shall be called as PMC 2.

**<Project Management Committee 1> (for Private Building Safety Component)**

1) Scope

- to approve the content of the Operational Guidelines in its establishment, and in case of their modifications if necessary
- to approve the accreditation criteria and selection of PFIs.
- To review the progress of the project.
- to annually review the performance of the PFIs after checking the Annual Reports.

2) Frequency

Quarterly basis

3) Composition of PMC 1

No	Organization	Title in organization	Title
1	Bank and Financial Institutions Division	Secretary	Chairman
2	Bangladesh Bank	Representative	Member
3	PWD	Project Director of PWD-PIU	Member
4	Department of Inspection for Factories and Establishments	Representative	Observer
5	PFI	Representative	Member
6	JICA	Representative	Observer
7	BB	Project Director of JICA-PIU	Member Secretary

**1.3.3. Ministry of Finance (MOF)/ the Executing Agency for the TSL Project**

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

**1.3.4. Bangladesh Bank (BB)/ the Implementing Agency for the TSL Project**

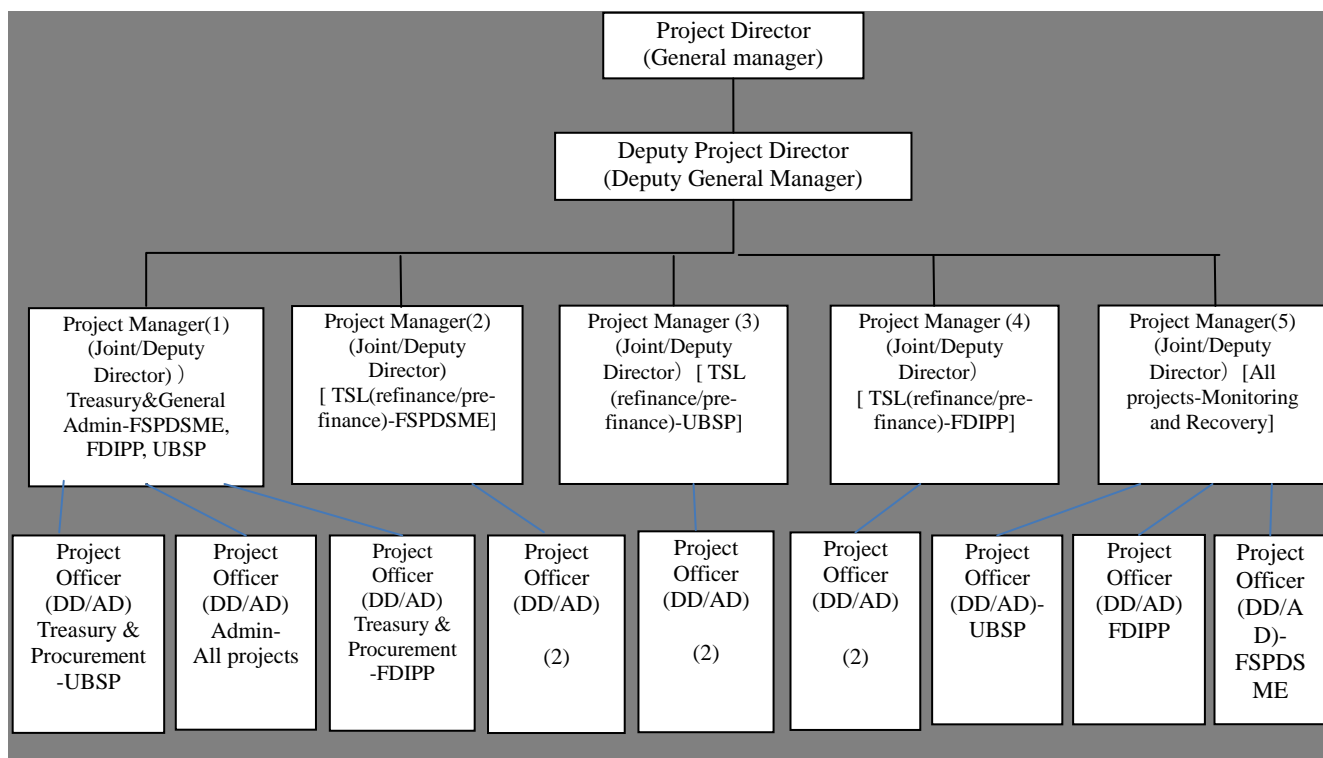
Bangladesh Bank will act as an Implementing Agency responsible for the administration of the TSL Project with aim to achieve the project objective under the Administration Agreement concluded between MOF-BFID and BB soon after the effectuation of the Loan Agreement. The Implementing Agency will be supported by the Consultant to be employed by BB under the TSL Project and implement the TSL Project in cooperation with the Consultant to be employed by PWD-PIU.

**1.3.5. Project Implementation Unit of BB (JICA-PIU)**

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



**Figure 1.1: Organ gram of Project Implementation Unit (JICA-PIU)**



The Project Director will be primarily responsible for the TSL Project implementation, and shall mobilize any directorate of BB necessary for the smooth implementation of the TSL Project through appropriate authority of BB. BB may assign appropriate level staff members in JICA-PIU.

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

**(1) Project Manager (1)-Treasury & General Administration Section**

- Maintenance of the Designated Account, the Project Operating Account and the Revolving Fund Account established for the TSL Project, and disbursements of OLL funds to PFIs, including instruction to the Accounts and Budgeting Department for transfer of funds from/ to such Project Accounts,
- Instruction to the Accounts and Budgeting Department to transfer funds to be paid by PFI to Revolving Fund Account, BB's Revenue Account and MOF's Revenue Account,
- Request for initial disbursement and replenishment to JICA,
- Preparation of statements of the Project Accounts,
- Full cooperation to external audit of the Designated Account, the Project Operating Account and the Revolving Fund Account as well as to the external audit for Statement of Expenditures.
- Coordination with BB's other departments for general affairs, and

- Provision of necessary administrative assistance for other sections of JICA-PIU and the Consultants to undertake the technical assistance component of the TSL Project.
- (2) **Project Manager (2)**-TSL Administration & Appraisal/Refinance/Pre-finance/Coordination Section: **FSPDSME**
- (3) **Project Manager (3)**-TSL Administration & Appraisal/Refinance/Pre-finance/Coordination Section : **UBSP**
- Conduct the accreditation of PFIs, including annual review
  - Make Participation Agreement with PFIs
  - Project Coordination with PWD-PIU and PWD's
  - Confirmation/Review of PFI's ESMS policy,
  - Confirmation/Review of monitoring items on environmental checklist and monitoring form.
- (4) **Project Manager (4)**-TSL Administration & Appraisal/Refinance/Pre-finance/Coordination Section: **FDIPP**
- (5) **Project Manager (5)**-Promoting, Monitoring and Evaluation Section
- - Confirmation/Review of monitoring items on environmental checklist and monitoring form.
  - Daily monitoring of the TSL Project,
  - Production of quarterly Progress Reports (P/R), including On-going Sub-project Summary Report, and Project Completion Report (PCR),
  - Preparation of Current Repayment and Overdue Status Report
  - Consultation meeting with PFIs/End-borrowers.
  - Seminar/Workshop for project promotion.
  - Evaluation of the progress of the Project.
  - Impact Assessment

#### **1.3.6. Project Implementation Unit under PWD (PWD-PIU)**

For the purpose of the smooth implementation of the Project, Project Implementation Unit of PWD (PWD- PIU) will be established within PWD with a Project Director, Deputy Project Director, Project Managers and adequate number of staff members who will specifically handle all relevant tasks related to the Project recruited within the PWD's and relevant institutions' human resources.

Among the composed PWD-PIU, Technical Unit will be responsible for handling the private building safety for the aspect of the engineering. Actual assessment, design and construction supervision work will be done by the Consultant employed by PWD-PIU(hereinafter referred to as "UBSP's Consultant").

#### **1.4. Governing Agreements for the TSL Project**

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

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

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

- (1) Loan Amount and Allocation of Proceeds of Loan,
- (2) Disbursement Procedure,

- (3) Administration Structure, and
- (4) Reporting Requirements to JICA.

#### **1.4.2. Project Memorandum (P/M) between JICA and GOB**

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

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

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

#### **1.4.3. Administration Agreement between MOF and BB**

The Administration Agreement officially authorizes BB as the Implementing Agency which has been fully effective since August 2016 and will be valid until March 2027 or such other date as may be agreed between MOF-BFID and BB.

#### **1.4.4. Participation Agreement between BB and PFI**

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

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

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

- (1) To comply with all the rules and regulations applicable to banks and financial institutions in Bangladesh;
- (2) To comply with the accreditation criteria at all times unless the PFI is at the remedial stage and is so allowed by BB;
- (3) To comply with all the terms and conditions of sub-loans as specified above as well as in the Operating Guidelines prepared by JICA-PIU and approved by PMC1;
- (4) To supervise and monitor the implementation of sub-projects by end-borrowers to assure that the purpose of the TSL Project shall be accomplished;
- (5) To implement the TSL Project and conduct its operations and affairs, in accordance with sound administrative, financial, economic and managerial standards, and to provide, promptly as needed, the funds, facilities, services and other resources required for such purpose;
- (6) To disclose or submit all information required by JICA-PIU, including, but not limited to, audited financial statements and reports required by JICA-PIU for the implementation and monitoring of the TSL Project;
- (7) To allow JICA-PIU to suspend, terminate or withdraw OLL when violations are

- observed;
- (8) To enable JICA-PIU, MOF-BFID, PWD-PIU or JICA to inspect the PFI or any sub-projects and review any relevant records and documents maintained by the PFI, if JICA-PIU, MOF-BFID or JICA so requests; and
  - (9) To cooperate with JICA-PIU to promote public relations of the TSL Project.

#### **1.4.5. Sub-loan Agreement between PFI and End-borrower**

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

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

It is important for PFI to accept that a sub-loan agreement with an End-borrower should allow preliminary approval of PFI. The preliminary approval is an essential key for the End-borrower to take further steps into detail design and construction contract stages. Based on the preliminary approval of loan provided by PFI, the End-borrower affords to accept and start technical procedures. PFI will provide final approval of loan to the End-borrower upon submission of draft contract of construction together with all necessary documents. The final approval of PFI to the End-borrower will effectuate the construction contract.

## **2. Eligible End-borrowers and Sub-Projects**

The TSL Project aims at strengthening the factory building of RMG sector and private commercial buildings through provision of market-based short to long-term finance to building safety through the accredited PFIs; and thereby contributing to the development of financial market and improvement of vulnerability of urban city on sustainable basis in Bangladesh. PFIs will select bankable end-borrowers who are willing to conduct Initial Assessment to be conducted by UBSP's consultant on first-come first-served basis.

### **2.1. Eligibility Criteria for End-borrowers**

PFI will provide a Sub-loan, which will be a short to long-term loan to an eligible end-borrower i.e. an owner of RMG factory, a building owner of RMG factory and a private building owner (for commercial purpose only).

#### **2.1.1. Legal Status**

Eligible End-borrowers of RMG factories is envisaged to be members of any of following association:

- (1) Bangladesh Garment Manufacturers and Exporters Association (BGMEA)
- (2) Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA)
- (3) Bangladesh Garments Accessories & Packaging Manufacturers & Exporters Association (BGAPMEA)

In addition, factories which are not a member of the above associations but under National Initiative are also envisaged to Eligible End-borrowers.

If applications for sub loan in RMG sectors are not sufficient to absorb the project fund, BB in consultation with BFID and JICA may consider private building as eligible for project finance. In this case private building owners need to provide written commitment that the intended building is to be used for RMG sectors. If so, the owner of private building shall firstly receive the guidance of the procedures of TSL since PFIs is an entry unit of the TSL Project. Based on the understanding, the private building owner will be advised to make an application for Initial Assessment by PFIs.

#### **2.1.2. Size of Sub-loan**

Size of sub- loan shall be within 350 million BDT. If it is more than 350 million BDT, it is necessary to be approved by PMC1 and concurred by JICA.

#### **2.1.3. Eligible Geographical Location**

Under the TSL Project, factories of RMG sector and private buildings shall be located in the Dhaka, Gazipur, Narayanganj District and Chittagong City only.

#### **2.1.4. Ineligible Investments for financing under the TSL Project**

Purchase of land or land use rights and payment of tax and import duties are not eligible for financing. The ineligible investments under the TSL Project are described in ANNEX V: Ineligible Investment Activities List.

## 2.2. Financial and technical Procedures for the End-borrower

For the purpose of smooth implementation of the Project and early realization of borrowings to the end-borrower, the procedures containing financial and technical aspects useful for all stakeholders under the building safety TSL Project are as follows.

### (1) Eligible Applicant:

Eligible applicant is a person who meets following conditions;

- An owner of building and factory, rented factory owner or building owner of RMG and knitwear sectors who holds/is willing to hold a membership of BGMEA, BKMEA, BGAPMEA or other private building owner who is approved by PMC1, and who is ready to carry out the Initial Assessment and subsequent construction works such as retrofitting, re-building or relocation of his factory.

(Note: Condition of determining construction methods is described in Technical Guidance for the TSL Project as ANNEX -XII)

### (2) Eligibility to Finance:

- 1) Cost necessary for the seismic resilient building safety (retrofitting, rebuilding and/or relocation)
- 2) Cost for strengthening fire safety measures of buildings through installation of fire protection door, fire extinguishing equipment
- 3) Cost for working capital during the suspension of the business by construction of seismic resilient building (only financed when End-Users borrow the loans to ensure the seismic resilient building safety). However, PFIs will justify the necessity of working capital applied for and the amount of working capital should not exceed 10% of total loan for retrofitting/rebuilding/relocation.
- 4) Cost of detailed assessment and design and drawing after initial assessment conducted by owners ( if the RMG factory owner agreed for strengthening the building safety then design and drawing cost can be reimbursable)

### (3) Financing and Technical Process (See the Table and the Flow chart procedures attached hereunder):

- 1) BB will issue circular to all PFIs on UBSP Loan after PFI agreement
- 2) End-borrower will apply for this loan through PFIs and PFIs will conduct credit assessment
- 3) PFIs will select eligible end borrowers and submit the application for initial assessment to UBSP Consultants under PWD-PIU.
- 4) UBSP consultants will explain the details about initial assessment and rough cost estimation to the End borrower.
- 5) End borrower agrees to the details about initial assessment to be conducted by UBSP's Consultant.
- 6) UBSP's Consultant conducts initial assessment and estimates cost, and submits the result to the End-borrower.  
At this time, the End-borrower is advised by UBSP's Consultant the method of construction, retrofitting, rebuilding or relocation and how to approach to PFI.
- 7) End-borrower prepares necessary financial documents together with the result of cost estimate of initial assessment and business plan and submits them to PFI for sub-loan request.
- 8) PFI conducts its due diligence, appraises, decides on preliminary approval and sends it to the End-borrower.
- 9) End-borrower, based on the preliminary approval of PFI, requests for conducting

detailed building Survey and detail design in line with agreed construction method.

- 10) Upon request, UBSP's Consultant conducts detailed design works and estimates the accurate cost so the end borrower can hire his own consultant for detail design and cost estimates<sup>3</sup>. The end borrower may include the cost of detailed design by hired consultants in the sub-loan.
- 11) Based on the design result, the end borrower submit building permit to the authority.
- 12) After getting the building permission and based on the cost estimation by the design work, the Applicant will start tender in consultation with the PWD-PIU and their consultants.
- 13) The end-borrower will select the contractor who is capable of construction including supervision in consultation of PWD-PIU and its consultant and will conduct negotiation of construction contract.
- 14) The end-borrower will sign the draft contract for construction and submit it to the PFI for the final approval of the loan. And the draft contract shall become valid when the final approval for loan by the PFI given to the Applicant.
- 15) The PFI will evaluate the draft contract for construction and give the final approval for the loan to the Applicant and copy to UBSP consultant under PWD-PIU.
- 16) PFIs will send the final application to JICA-PIU for disbursement
- 17) Based on the final approval for loan given by the PFI and JICA-PIU, the end borrower will conclude the construction contract and commence the work to the contractor under the supervision of the UBSP's consultant.

(4) Percentage of Coverage: 100% of the project cost may be financed under the program

(5) Interest Rate: Will be up to 9%.

(6) Collateral: Decided by PFIs following BB's prudential guidelines.

(7) Repayment:

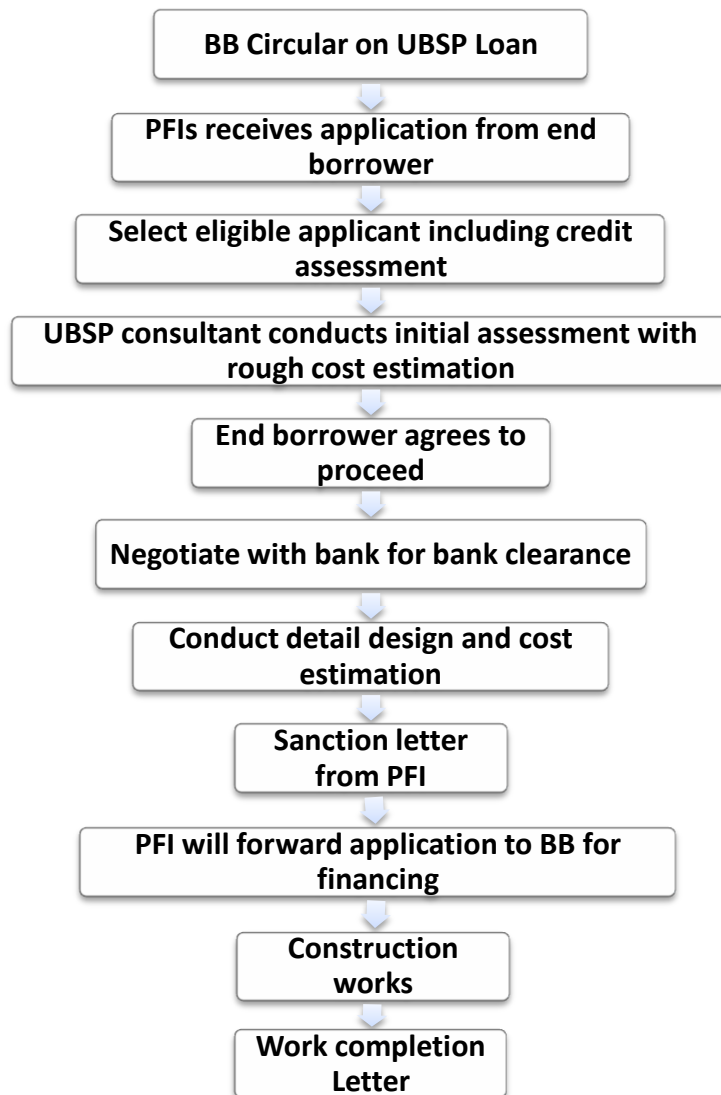
- a) Up to 15 years including 3 years grace period for rebuilding and relocation.
- b) Up to 10 years including 2 years grace period for retrofitting and fire safety.

Details criteria are given in ANNEX-VI.

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<sup>3</sup> The detailed design and cost estimates by owner's appointed consultant, however, must be endorsed by the UBSP consultant under PWD-PIU.

**Table 2-1: Financial and Technical Procedures**





### **2.3. Social and Environmental Consideration**

The Sub-project shall pay due consideration on the social and environmental impacts associated with and be required to be in accordance with JICA Environmental Guidelines<sup>4</sup> attached as Annex XI. Under the Guidelines, no investment activity will be financed by the TSL scheme, which is likely to have significant adverse impact on the environment, and which could be classified as Category A.

### **2.4. Technical Standard**

All the buildings under the TSL project shall comply with Bangladesh National Building Code (BNBC). In order to secure the building safety, it is recommended that UBSP's consultant and consultants hired by end borrower may conduct technical procedure in reference to the manuals prepared by JICA-PWD technical cooperation project.

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<sup>4</sup>The governing rule for the environmental and social consideration for the Project is; the one adopted by JICA, "Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations", 2002.

### 3. Financing Scheme

JICA will lend to the GOB at its standard terms of ODA loan. These funds will be on-lent to PFIs through JICA-PIU, which would then re-lend the fund to private sector end-borrowers. In order to contribute to the improvement of the vulnerability of private buildings, the TSL Project is to provide long-term loans for building safety and short-term loans for fire safety equipment and facilities and working capital covering for the construction period while the factory's operation has been suspended.

#### 3.1. Terms and Conditions of Sub-loan

The PFI shall assume all lending risks associated with extending of Sub-loans under the TSL Project. The terms and conditions of the Sub-loan scheme under the TSL Project are outlined in Annex VI. The Sub-loan is the term used to express the loan to be provided by the PFI to the End-borrower which includes the credit funded by the OLL from JICA-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 during the construction financed to the End-borrower. The sub-loan amount shall be applicable to the total amount of the financing for the eligible items as mentioned above to the End-borrower.

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

- ✓ 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, and cost of such activities as resettlement and other compensation cost.

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<sup>5</sup> and managerial standards, including the implementation of the action plan for displaced persons, and to maintain adequate records;
- (3) require the End-borrower to submit their financial statements for every accounting term, at least on an annual basis, until the full repayment of sub-loans;
- (4) inspect, by itself or jointly with representatives of JICA-PIU, MOF-BFID or JICA, if they shall so request, such constructions, fire safety equipment and facilities, goods, plants 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, JICA-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

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<sup>5</sup> established by GOB

- (7) take any legal action against the End-borrower in case of default following the prevailing rules and regulations and prudential regulations/ guidelines of BB.

### **3.2. Terms and Conditions of On-lending Loan (OLL)**

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

The principal and interest payments of OLLs shall be made in accordance with the schedule of amortization of each Loan as prepared by JICA-PIU. These payments of interests and repayments of principal shall be realized by debiting them against the current account of the concerned PFI maintained with BB. Then, principals of OLLs shall be credited to Revolving Fund Account (RFA). In such cases, no overdue of interest and principal payment is expected. However, the PFI may request BB, in advance, to make delay in debiting the PFI's account on valid ground like liquidity problem, Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements etc. In such cases, PFI should pay a penalty of 3% above the Bank Rate (the rate of interest of OLL) for maximum of 3 working days and a penalty of 5% above the bank rate for subsequent days on due amount. Note that the penal interest shall be charged for the number of days actually elapsed from the due date. On the contrary, in case of prepayment of OLL, JICA-PIU will not impose any penalty, which is different from the general practice in term lending by banks.

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

### **3.3. Revision of Terms and Conditions**

Any change in the terms and conditions of the OLL as well as the Sub-loan specified above, which would materially change the structure and/or nature of the TSL scheme, shall be approved by the PMC1 and concurred by JICA. Such revision shall, in principle, be applied to uncommitted loans only. The application of such revision to an outstanding or committed loan shall be subject to an agreement between the related parties.

### **3.4. Financing Method**

Both refinancing and pre-financing methods will be allowed for the disbursement of OLL.

Under the Refinancing Method, the PFI makes disbursement of the Sub-loan prior to submitting its Request for On-lending to JICA-PIU, whereas under the Pre-financing Method, the PFI makes disbursement after it receives the disbursement of OLL from JICA-PIU. Disbursement under the End borrower can request for advance payment up to 20- 25% of the total cost and the rest of the amount will be disbursed within 3 tranches (minimum). PFIs can exercise the option to choose Refinancing Method or Pre-financing Method. Final installment will be disbursed based on completion Report/Certificate.

## **4. Participating Financial Institution (PFI)**

### **4.1. Accreditation Criteria for PFI**

The eligible PFIs for the OLL under the TSL scheme shall be screened by the accreditation criteria<sup>6</sup> set forth in Appendix-3 of the Minutes of Discussion, which is shown in Annex VIII. The principal items of criteria are following, inter alia:

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

### **4.2. Accreditation Assessment**

JICA-PIU shall invite applications from banks and financial institutions, examine their eligibility vis-à-vis the accreditation criteria, list up eligible PFI candidates, obtain JICA's concurrence, approve the final list of eligible PFIs, and report it to the PMC1.

### **4.3. Accreditation Procedure**

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

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

### **4.4. Entry or Exit of PFIs**

At the time of annual review of PFIs, applications for new entry and/or exit shall be considered. Any change in the list of accredited PFIs at the time of annual review shall be approved by JICA-PIU subject to JICA's review and concurrence, and be reported to the PMC1.

### **4.5. Loss of Eligibility**

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

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<sup>6</sup> Any change in the accreditation criteria shall be reviewed and approved by the Project Management Committee 1 (PMC1) subject to JICA's review and concurrence.

## **5. Sub-loan by PFI**

### **5.1. Pre-conditions for Sub-loan**

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

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

The End-borrower will firstly visit PFI for this loan; PFI will check the credit worthiness of the factory owner. If the owner is eligible for financing then PFI will explain the outline of JICA/TSL and based on the understanding of the TSL scheme, the End borrower will also receive the application form for conducting Initial Assessment and submit it to the UBSP consultant under PWD-PIU.

The End-borrower will receive the detailed procedures on the JICA/TSL scheme from UBSP consultant under PWD-PIU. At that time, the End-borrower should commit a definite intention to strengthen his/her factory building utilizing JICA/TSL scheme to UBSP consultant.

UBSP Consultant will start and finish Initial Assessment with a cost estimates by construction method, such as retrofitting, rebuilding and/or demolish with new construction.

Based on the understanding of the result of technical evaluation, the End-borrower will submit the Application for Sub-loan to PFI.

Any part of the information that is required under the Project but is not required under the prevailing commercial practice must be provided additionally by the End-borrower to PFI. The application shall contain, among others, the information required for the credit appraisal and for examining the compliance of the Sub-loan with the eligibility criteria of the Project.

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

#### **5.3.1. Credit Appraisal**

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

Upon receipt of the Application for Sub-loan, the PFI conducts the credit appraisal in accordance with its own guidelines for commercial lending established by following the Prudential Regulations issued by Bangladesh Bank.

The PFI licensed under Non-Bank Financial Institution (NBFI), similarly complies with the Prudential Regulations for NBFI 2010 issued by BB. A thorough credit and risk assessment should be conducted prior to sanctioning the Sub-loan. The results of the assessment should be presented in the Credit Assessment Report within the PFI that originates from the relationship officer in charge and is reviewed by the Credit Risk Management Unit for identification and

probable mitigation of risks. The PFI examines and approves the Sub-loan in accordance with the same procedure, standard and quality of credits as the ones for the PFI's normal lending practice for commercial and industrial investment loans. In the credit appraisal process, the Application for Sub-loan will be evaluated/assessed by Credit Risk Management Unit. The PFI shall examine risk areas of the Application for Sub-loan including but not limited to the risks associated with; the End-borrower, the industry, the market environment, the supplier/buyer, the technology adopted, the financial performance, the credit background, the adherence to lending guidelines, the purpose of credit, the project implementation, the security, and social and environmental considerations<sup>7</sup>, etc.

It is noted for PFI that lending to building safety normally requires long term loan and PFI is required to provide preliminary intention for loan to the End-borrower when the result of ASE submitted by the End-borrower. Final approval of loan will be provided by PFI to the End-borrower when the detail design with detailed cost estimate is conducted by UBSP consultant under PWD-PIU.

### **5.3.2. Collateral**

A special attention is invited to the issue of collateral conditions for the Sub-loan. Under the TSL Project, the requirement of collateral for the Sub-loan rests upon the determination to be made by the PFI in accordance with the PFI's own policy and guidelines and in compliance with the rules and regulations prevailing in Bangladesh.

### **5.3.3. Credit Approval Process**

The approval process must reinforce the segregation of the Relationship Officer from the approving authority. The relationship officer should be the owner of the customer relationship and must be held responsible to ensure the accuracy of the entire credit application submitted for approval. The relationship officer must be familiar with the lending guidelines of the financial institution and should conduct due diligence on new borrowers and guarantors. The results of credit assessment should be recommended for approval by the relationship team and forwarded to Credit Risk Management for review and assessment. The credit should subsequently be approved by proper approval committee. The earlier guidelines issued by BB, "Managing Core Risks of Financial Institutions: Credit Risk Management"<sup>8</sup> specifies the Approval Process to be followed by the banks and financial institutions together with the indicative delegated approval authority levels. The documents encompass the five levels of layers for the Application for Loan by the borrower passes through before it will be eventually approved by the financial institution. The layers are conceived to be comprised of; (i) relationship officer/ manager, (ii) zonal/head office credit risk officer, (iii) head of credit risk management team & head of business units, (iv) credit committee, and (v) executive committee/board.

## **5.4. Credit Risk Management at PFI**

The Project envisages that the PFI bears the credit risk of the End-borrower and the Sub-loan/project. The credit risk is the possibility that the borrower or counter party including the guarantor, will fail to meet agreed obligations. The management of the credit risk poses to be the most crucial task for the PFI and, as such, policies and procedures should be solidly established and strictly enforced at the banks and financial institutions. In addition to the compliance with

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<sup>7</sup>The guidelines applied to the Project is "JBIC Guidelines for Confirmation of Environmental and Social Considerations (April 2002)"

<sup>8</sup>Bangladesh Bank, "Managing Core Risks of Financial Institutions: Credit Risk Management", July 2005

the laws, regulations and regulatory guidelines, the PFI needs to establish a solid system for credit risk management. BB not only regulates the credit risk management among the scheduled banks and NBFIs through establishing rules and regulations but also provides guidelines for the banks and financial institutions to follow in solidifying the credit risk management of the banks and financial institutions. The examples of the guidelines are contained in such materials as “Managing Core Risks of Financial Institutions: Credit Risk Management” (2005), both issued by BB.

The guidelines have been compiled by the Focus Group established within BB to introduce the Industry’s Best Practices. The document has been prepared with the aim at providing directional guidelines to the banks and financial institutions so that the banks and financial institutions will improve risk management culture, establish minimum standards for segregation of duties and responsibilities, and assist in the on-going improvement of the banks and financial institutions. The document is composed of the components similar to the first documents; (i) policy & strategy guidelines comprised of: lending guidelines, credit assessment & risk grading, approval authority, segregation of duties, and internal audit; (ii) preferred risk management structure & responsibilities comprised of: preferred risk management structure, and key responsibilities; (iii) procedural guidelines comprised of: approval process, credit administration, credit monitoring and credit recovery.

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

#### **5.5. Compliance with the Eligibility Requirement and Operating Guidelines**

The eligibility criteria and terms and conditions of On-lending Loan (OLL) and of Sub-loan have been established in prior sections of this Operating Guidelines. The PFI examines the Application and other documents submitted to check whether it complies with the qualifying conditions established by the Project. The PFIs and the End-borrowers are guided to abide by this Operating Guidelines for handling the Sub-projects as well as the Sub-loans.

#### **5.6. Compliance with the Banking Regulations**

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

The following regulations may reasonably be regarded as the minimum requirement for building safety financing when the PFI extends Sub-loan to the End-borrower under the Project;

- a. Sources and capacity of repayment and cash flow backed lending,
- b. Personal guarantees,
- c. Per party exposure limit,
- d. Securities,
- e. Loan documentation,
- f. Margin requirement,
- g. Credit Information Bureau clearance,
- h. Minimum condition for taking exposure,
- i. Proper utilization of loan,
- j. Restriction on facilities to related parties, and
- k. Classification and provisioning for assets.

In addition, the PFI under the scheduled banks has to comply with the Prudential Regulation for Banks 2009 of BB for all of their Sub-loans under TSL. The PFI under NBFIs license similarly has to comply with the Prudential Regulation for NBFIs 2010.

### **5.7. Social and Environmental Consideration**

The PFI shall be primarily responsible for examining the social and environmental impacts associated with the Sub-loan/project in accordance with JICA Environmental Guidelines<sup>9</sup>. The PFI shall ensure that the End-borrower is required to submit the Environmental Clearance Certificate (ECC) when applying for a Sub-loan, together with all documents required for the issuance of ECC in accordance with the domestic laws and regulations (such as Environmental Impact Assessment (EIA), Initial Environmental Examination (IEE), and so forth). JICA-PIU shall examine the social and environmental impacts associated with the Sub-loan/project in accordance with JICA Environmental Guidelines, by requiring the PFI to certify that the Sub-loan/project is compliant with JICA Environmental Guidelines as well as the domestic laws and regulations and that the PFI has collected all the documents mentioned above when applying for OLL. JICA-PIU shall ensure the PFI to be compliant and the PFIs cause the End-borrower to comply.

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

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

### **5.8. Sub-loan Agreement**

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

### **5.9. Disbursement of Sub-loan**

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

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<sup>9</sup>The governing rule for the environmental and social consideration for the Project is; the one adopted by JICA, "Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations", 2002. The guidelines are accessible through the URL of; [http://www.jica.go.jp/english/publications/jbic\\_archive/environmental\\_guidelines/pdf/guide.pdf](http://www.jica.go.jp/english/publications/jbic_archive/environmental_guidelines/pdf/guide.pdf)



## **6. On-lending Loan by JICA-PIU**

### **6.1. Pre-conditions for OLL**

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

- (1) The PFI has been duly accredited and appointed in accordance with the procedures established by the Project; and
- (2) The PFI has not failed to make debt servicing without any reason that are deemed justifiable by JICA-PIU and has no debt outstanding in arrear at the time of requesting JICA-PIU for OLL.

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

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

#### **6.2.1. Examination of the Application for On-lending Loan by JICA-PIU**

The PFI is allowed to submit the Application for On-lending Loan twice a month. In case of the frequency of twice a month found infeasible, JICA-PIU may bring the issue to the PMC1 to decide to reduce the frequency to once a month. The deadline for such submission in each month shall be fixed and announced by JICA-PIU in advance.

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

- a. Eligible investment items,
- b. Size of Sub-loan,
- c. Rate of interest,
- d. Repayment term with grace period,
- e. Securities (collateral),
- f. Financing structure, and
- g. Social and environmental consideration.

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

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

Upon confirming the compliance with the eligibility requirement and the terms and conditions of Sub-loan, JICA-PIU shall notify the PFI the result of its examination. The period for issuing

such Notice should not exceed ten (10) business days from the date of receiving the PFI's Application for On-lending Loan with all valid documents to the date of sending the Notice. In case where the frequency of disbursement is reduced to once a month, the period for issuing the Notices may be extended proportionately.

### **6.3. Disbursement of OLL**

The Project allows the two methods of financing; i.e. Refinancing Method and Pre-financing Method as has been stated in Section 3.4 above.

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

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

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

### **6.4. Amendment of Application for On-lending Loan**

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

### **6.5. Suspension of Disbursement under the TSL Project**

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

## 7. Debt Servicing, Rescheduling and Event of Default

### 7.1. Payment of Interest and Principal on OLL

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

### 7.2. Prepayment of Principal

#### 7.2.1. Sub-loan

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

#### 7.2.2. On-lending Loan

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

### 7.3. Rescheduling

#### 7.3.1. Sub-loan

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

#### 7.3.2. On-lending Loan

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

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

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

## **8. Fund Management**

### **8.1. Accounts Established**

L/A between JICA and GOB stipulates that the Project is required to open and maintain the Designated Account (DA), the Project Operating Account (POA) and the Revolving Fund Account (RFA) with BB.

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

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

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

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

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

### **8.2. Receipt of Funds from JICA**

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

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

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

- (1) Statement of Expenditure (SOE), and

- (2) Supporting documents evidencing each payment and its usage.

### **8.3. Flow of Funds**

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

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

### **8.4. Revolving Fund Account**

The funds accumulated in the Revolving Fund Account shall be used for disbursement of the second and succeeding generations of OLL to PFIs within the project period.

After the end of the project the revolving fund may be utilized for refinancing or pre-financing to PFIs in consultation with GOB and JICA. The detailed terms and conditions of sub-loan will be set later on with approval of the PMC-1 subject to the amendment of the said article of the loan agreement. JICA will take necessary actions to amend the article of the loan agreement after receiving the request letter from BB through Executive Agency.

### **8.5. Management of Funds and Fund Accounts**

JICA-PIU shall submit to JICA the Statements of the Accounts mentioned above for each of the fiscal year. The Designated Account, the Project Operating Account, the Revolving Fund Account and Statement of Expenditure to be prepared for the Expenditures Financed from JICA Loan shall be audited annually by an independent auditor acceptable to JICA and the Audit Report shall, as stipulated in the L/A, be furnished to JICA annually within six (6) months after the end of each fiscal year of JICA-PIU, i.e. by December of each year, until three years after the completion of the disbursement from JICA.

### **8.6. Management Information System (MIS)**

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

## **9. Promotion of the TSL Project**

### **9.1. Publicity Campaign**

The success of the Project depends upon the raising of awareness among factory owners of RMG sector and private building owners of the country on the availability of the lending facility for financing through short to long- term investment by the building owners for strengthening of their building safety. JICA-PIU ensures to implement publicity measures such as conducting awareness raising campaign, distributing of brochure/pamphlets and/or holding of seminars or workshops. BB and the PFIs are expected to participate in such publicity promotional activities in cooperation with BGMEA/BKMEA/BGAPMEA.

### **9.2. Advisory Services**

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

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

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

### **9.3. Capacity Building of PFIs' Staff**

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

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

## **10. Monitoring**

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

### **10.1. Monitoring by PFI**

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

### **10.2. Measurement of Monitoring Indicators**

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

### **10.3. Monitoring of Social and Environmental Impact**

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

### **10.4. Monitoring and Coordination by JICA-PIU**

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

For the TSL, JICA-PIU will also maintain proper coordination with UBSP's Consultant regarding the technical procedures, such as technical evaluation, construction methods, Detail Design and cost estimation conducted by UBSP's Consultant. JICA-PIU shall play a vital role in coordination for acceleration of both technical and financial procedures conducted by UBSP's Consultant and PFI.

### **10.5. Project Status Report**

JICA-PIU, in cooperation with PWD-PIU, shall report the findings from monitoring and coordination activities in sending JICA and PMC1 the Quarterly Progress Report whose format



is exemplified under the title of Project Status Report in the M/D;

**(1) Project Description (Relevance)**

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

**(2) Project Implementation (Efficiency)**

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

**(3) Benefits Derived from the TSL Project (Effectiveness)**

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

**(4) Operation and Maintenance (Sustainability)**

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

**(5) Evaluation**

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

**10.6. Monitoring by Project Management Committee 1 (PMC1)**

The PMC1 is established for managing the TSL Project under UBSP to approve the content of the Operational Guidelines in its establishment, and in case of their modifications if necessary, to approve the accreditation criteria and selection of PFIs and to annually review the performance of the PFIs after checking the Annual Reports. The TSL Project is monitored and administered by PMC1 by at least quarterly meeting.

**10.7. Inspection for Building Safety**

For the purpose of monitoring of the Project, JICA-PIU, UBSP consultant under PWD-PIU, PMC1 and JICA may initiate visits for inspection to the End-borrowers and the Sub-projects. The following sites and parties may be visited for such inspection and relevant records and documents may be examined;

- (1) JICA-PIU, UBSP consultant under PWD-PIU, PMC1 and JICA
- (2) PFIs, including their branch offices, and
- (3) End-borrowers' sites of Sub-projects.

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

#### **10.8. Impact Assessment**

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

## **11. Reporting**

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

### **11.1. On-going Sub-Project Summary Report**

The PFI shall provide JICA-PIU with the Report on Periodical Review of Sub-Project on a quarterly basis (as of the end of March, June, September, and December of each year) within fifteen (15) days after the end of each quarter for preparing JICA-PIU's Report "On-going Sub-Projects Summary Sheet" to JICA to be submitted quarterly until three years after the completion of the TSL Project<sup>10</sup>.

### **11.2. Current Repayment and Over-due Status Report**

To be submitted annually until three years after the Completion of the Project in the Format "Appendix 27 of M/D". The PFI shall provide JICA-PIU with the data required by JICA-PIU for preparing JICA-PIU's Report to JICA in a similar form within fifteen (15) days after the end of each quarter.

### **11.3. Quarterly Progress Report**

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

### **11.4. Project Completion Report**

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

### **11.5. Audit Report**

Audit shall be made on the "Statements of Designated Account, Project Operating Account and Revolving Fund Account" and the "Statements of Expenditures" by an independent auditor and be submitted to JICA annually within six months after the end of each fiscal year until three years after the Completion of disbursement in the form as determined by the auditor in reference to the standard format shown in Appendix 28 of M/D.

### **11.6. PFI Performance Review**

To be submitted annually until three years after the completion of the disbursement from JICA in the form in which JICA-PIU reports the result of annual review to the PMC1.

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<sup>10</sup>The Completion of Project is defined as (i) the last JICA's disbursement for Two Step Loan under the Loan Agreement of the Project or (ii) the expiry of the Loan Agreement period of the Project, whichever comes first.

#### **11.7. PFIs' Annual Reports**

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

## **PART 2: PROCEDURE**

### **12. Participating Financial Institution (PFI)**

#### **12.1. Accreditation Procedure**

##### **12.1.1. Application by banks and financial institutions**

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

- a) Copy of License for banking or financing;
- b) Audited financial statements for latest three (3) full years, together with the latest Annual Report, which show profitable operation in latest two (2) consecutive years; and
- c) Copy of Risk Assessment Procedures.
- d) Experiences in RMG financing (construction / fire safety)

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

##### **12.1.2. Due diligence of banks and financial institutions by JICA-PIU**

Selection will be made on the basis of the financial information consisting of the information provided in the Application by banks and financial institutions and CAMELS<sup>11</sup> data. JICA-PIU will examine the information and data on an item by item base to each bank whether the information and data would satisfy the level of each item or not. The examination of each item and aggregate assessment shall be performed in accordance with the Accreditation Assessment Form and its attachment form to summarize the financial statements attached herewith as Annex IX and X, respectively. Those applicant banks evaluated as unsatisfactory level in any one of the criteria will automatically lose eligibility for PFI. JICA-PIU may further discuss on unfavorable or adverse information of the applicant, if any, and make decision on whether the applicant be excluded from PFIs or not. JICA-PIU is authorized to accredit PFIs among those which have been qualified in the assessment. The final decision of the JICA-PIU will be informed to the applicant together with the evaluation made after JICA concurrence obtained and report to PMC1

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

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

As part of its monitoring activities, JICA-PIU shall request PFIs to submit each PFI's audited financial statements and the financial data required for assessing the PFI, immediately after the completion of auditing every year. Based on the collected financial data plus in-house information and data, JICA-PIU shall monitor the accreditation status of PFIs in accordance with the accreditation criteria described in Section 4.1 above. The results of accreditation

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<sup>11</sup> "CAMELS" stand for Capital adequacy, Assets quality, Management ability, Earnings, Liquidity and Sensitivity. Therefore CAMELS evaluation has the six components.

assessment shall be reported to the PMC1.

### **13. Sub-loan by PFI**

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

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

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

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

##### **13.2.1. Credit Appraisal and Verification of Compliance with the Regulations**

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

- 1) Before the submission of the application for Sub-loan, the End-borrower is requested to apply for conducting Initial Assessment for deciding the construction method and with cost estimates required for construction works;
- 2) The End-borrower fills up the Application for Sub-loan with accurate and sufficient information together with the result of ASE and cost estimates;
- 3) The End-borrower shall provide CIB undertakings, the financial statements, other information, papers and documents required by the relationship officer in charge at the branch office;
- 4) Each PFI's relationship officer in charge at the branch shall evaluate the End-borrower's Application with due diligence, accomplish the relevant tasks and prepares the Credit Assessment Report;
- 5) Each PFI will check documents submitted by End-borrowers according to BB's guidelines on financing to building construction [BRPD circular letter no. 08 dated 28

- April 2013 and DFIM circular no. 02 dated 12 May 2013].
- 6) The Credit Assessment Report shall be forwarded to zonal office or to head office for review by the Zonal Credit Risk Officer (ZCRO) or Head Office Credit Risk Officer (HCRO);
  - 7) ZCRO or HCRO informs the results of review to the branch office;
  - 8) ZCRO/HCRO supports the Credit Assessment and forward the recommendation for approval to Head of Business Unit (HOB) and to Head of Credit Risk (HOCR) for onward recommendation;
  - 9) HOCR informs the result of review to ZCRO;
  - 10) HOCR and HOB supports the Credit Assessment Report and forward the recommendation for approval to Credit Committee;
  - 11) Credit Committee informs the decision as per the delegated authority to HOCR and HOB;
  - 12) Credit Committee forwards the Credit Assessment Report to Executive Committee/Board for approval within their respective authority; and
  - 13) Executive Committee/Board informs the decision to HOCR and HOB.

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

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

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

### **13.3. Compliance with the Eligibility Requirement and the Operating Guidelines**

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

### **13.4. Compliance with the Banking Regulations**

In conducting the credit appraisal and approval of the Application, the PFI ensures that the Sub-loan examined is in compliance with the prevailing banking rules and regulations imposed by the Government and/or the regulatory authority concerned. In addition, the PFI under the scheduled banks has to comply with the latest Prudential Regulation for Banks of BB for all of

their Sub-loans under TSL. The PFI under NBFI license similarly has to comply with the latest Prudential Regulations for NBFI. The procedures of the PFI established for appraising the normal credits can be adopted for the purpose of the compliance with the Banking Regulations.

### **13.5. Social and Environmental Consideration**

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

Any Sub-project that is classified in Category A under the JICA Guidelines shall not be eligible for financing under the Project. Any Sub-loan originally classified in Categories other than A and granted with the Sub-loan but was later re-classified as Category A, if it happens to be such case; the Sub-loan has to go through the environmental review process. The End-borrower and related parties must submit Environmental Impact Assessment (EIA) Report for Category-A projects. For projects that will result in large-scale involuntary resettlement, basic resettlement plans must be submitted. The PFI is obliged to obtain and confirm the environmental clearance through such measures as; obtaining the Environmental Clearance Certificate (ECC), Initial Environmental Examination (IEE), Environmental Initial Assessment (EIA), etc. The PFI reports JICA-PIU the steps and measures taken for such clearance. JICA-PIU shall enter into discussion based on the reports submitted by the PFI to cope with the situation. JICA undertakes its environmental reviews based on the EIA and other reports prepared by the End-borrower and submitted through the PFI and JICA-PIU.

For the Sub-loan classified as Category B, the scope of environmental review may vary from project to project, but it is narrower than that for Category-A projects. JICA undertakes its environmental reviews based on information provided by the End-borrower and related parties. Where EIA procedure has been conducted, the EIA report may be referred to, but it is not a mandatory requirement.

For the Sub-project classified as Category C, environmental reviews will not proceed beyond the screening and no further work will be required.

### **13.6. Sub-loan Agreement**

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

### **13.7. Disbursement of Sub-loan**

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



#### **13.7.1. Disbursement under Refinancing Method**

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

#### **13.7.2. Disbursement under Pre-financing Method**

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

## **14. On-lending Loan by JICA-PIU**

### **14.1. Pre-conditions of OLL**

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

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

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

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

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

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

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

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

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

### **14.3. Examination of the Application for OLL by JICA-PIU**

For each and every Form A-1, Application for OLL submitted, PIU first assigns one each unique

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

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

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

- 1) Receiving the Application for On-lending Loan and Request for Disbursement of OLL,
- 2) Assigning JICA-PIU's number to each Application,
- 3) Entering the Application into the OLL Control Book,
- 4) Examining the compliance with the eligibility criteria,
- 5) Submitting the result of examination to the appropriate authority through the Project Director,
- 6) Obtaining approval of the appropriate authority on the OLL and disbursement of the funds,
- 7) Entering the approval date into the OLL Control Book,
- 8) Preparing the Notices of Results to PFIs,
- 9) Ensuring the deposit of Demand Promissory Note duly signed by PFI at JICA-PIU,
- 10) Transferring fund by the Desk Officer to concerned PFI, Sending Vouchers to Accounts and Budgeting Department and sending Advice to Motijheel Office of BB.
- 11) Entering the disbursement date and amount into the OLL Control Book.
- 12) Sending Notice of Disbursement to PFIs [the notice includes the repayment schedule].

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

#### **14.4. Disbursement of OLL**

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

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

4, Report on Disbursement of Sub-loan under Pre-financing Method.

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

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

**14.5. Amendment of Request for On-lending Loan**

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

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

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

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

## **15. Debt Servicing, Rescheduling and Event of Default**

### **15.1. Notice of Due Dates on On-lending Loan**

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

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

Upon realizing the repayment on due date from the PFI, JICA-PIU notifies to PFI by sending Form B-6, Receipt of repayment of Principal and/or Interest. The recovery process shall accompany, among others, the following sequential steps of actions;

#### **[Process Flow at Treasury and Recovery/General Administration Section of JICA-PIU]**

- 1) Monitoring the maturities of the OLLs,
- 2) Sending the Notice of Due Dates to PFI
- 3) Approval for recovery by the Project Director,
- 4) Prepare Vouchers for recovery by the Desk Official and execute fund transfer. Principal portion shall be credited to the Revolving Fund Account (RFA).
- 5) Sending Vouchers to Accounts and Budgeting department for their records and reconciliation.
- 6) Prepare and send the Form B-6, Receipt of repayment of Principal and Interest,
- 7) Entering the recovery date and amount to the OLL Control Book.

### **15.3. Prepayment of Principal**

#### **15.3.1. Sub-loan**

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

#### **15.3.2. On-lending Loan**

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

the date of prepayment of OLL can be fixed in advance, the claim on interest can be included in the Form B-9, Acknowledgement of Notice on Prepayment for quicker settlement.

At JICA-PIU, the Form A-6, Report of Prepayment of Sub-loan shall be received at its Treasury and Recovery/General Administration Section. The prepayment shall be handled by the Officer in charge at the section in similar steps as the scheduled payment. The steps to be taken after the receipt of the incoming transfer shall be the same as in case of the scheduled repayment.

## **15.4. Rescheduling**

### **15.4.1. Sub-loan**

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

### **15.4.2. On-lending Loan**

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

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

#### **[Process Flow at TSL Administration and Appraisal/Refinance/Pre-finance/Coordination Section of JICA-PIU]**

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

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

## **15.5. Non-payment on Due Dates**

### **15.5.1. Sub-loan**

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

#### **[Process Flow at Treasury and Recovery/General Administration Section of JICA-PIU]**

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

## **16. Fund Management**

### **16.1. Accounts Established**

The procedure to handle the Designated Account (DA) is stipulated in the “Advance Procedure” attached to the Loan Agreement under Schedule 8. The Designated Account shall be audited annually by an independent auditor satisfactory to JICA and the Audit Report needs to be furnished to JICA annually within six months after the end of each year, i.e. by December of each year until three years after the completion of disbursement from JICA.

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

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

### **16.2. Receipt of Funds from JICA**

For requesting the initial disbursement under the Project, JICA-PIU shall submit the Request for Initial Disbursement as per “Advance Brochure” mentioned in the Schedule-8 of the Loan Agreement. JICA shall, upon receipt of the request for disbursement in the prescribed format, make initial disbursement of the Loan.

For requesting the replenishment of funds for the Designated Account, JICA-PIU shall submit the Request for Replenishment as per Form JICA-RPM attached to the Advance Brochure of Schedule-8 of the Loan Agreement. Replenishment of the account shall be made by JICA upon receipt of the request for replenishment accompanied by the following documents;

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

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



### **16.3. Flow of Funds**

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

In recovery of the OLL extended, Form B-5, Notice of Due Dates of Principal and/or Interest shall be sent by JICA-PIU to the PFI prior to the due date in which JICA-PIU shall inform the PFI that the PFI's account at BB shall be debited for the amount coming due on the specified due dates. On the due date notified, Accounts and Budgeting Department of BB shall debit the account of the PFI for the amount instructed by JICA-PIU. Out of the proceeds collected from the PFI's account, the Accounts and Budgeting Department shall credit the principle portion of the proceeds to the Revolving Fund Account whereas the interest portion is split into two parts as agreed by MOF-BFID and BB through Administrative Agreement or Subsidiary Loan Agreement (SLA).

### **16.4. Management of Funds and Fund Accounts**

JICA-PIU shall submit to JICA the Statement of the Accounts mentioned above for each of the fiscal year. The formats are exemplified as Form C-1, Statements of Designated Account, Project Operating Account, and Revolving Fund Account and Form C-2, Statement of Expenditure. The Designated Account, the Project Operating Account, the Revolving Fund Account and Statement of Expenditure to be prepared for the expenditures financed from JICA Loan shall be audited annually by an independent auditor. The standard formats of audit report as required by JICA for the Designated Account attached to Appendix 28 of M/D, Project Operating Account, Revolving Fund Account and Statement of Expenditure are attached to L/A and M/D.

### **16.5. Management Information System (MIS)**

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

- 1) Form D-1: Report of New On-lending Loan Registered,
- 2) Form D-2: On-lending Loan Status,
- 3) Form D-3.1: List of Applications for OLL Rejected,
- 4) Form D-3.2: List of Pending Applications for OLL,
- 5) Form D-3.3: List of Rescheduled OLLs and Sub-loans,
- 6) Form D-3.4: List of Sub-loans in Arrear,
- 7) Form D-4: Monthly Activity Report: New Approval of OLL,
- 8) Form D-5: Monthly Activity Report: Disbursement of OLL,
- 9) Form D-6: Monthly Activity Report: Recovery of Principal under OLL,
- 10) Form D-7: Monthly Activity Report: Interest Received under OLL,
- 11) Form D-8: Monthly Activity Report: Fund Flow,
- 12) Form D-9: Monthly Performance of OLL,
- 13) Form D-10: Due Date Table of OLL,
- 14) Form D-11.1: Due Dates of Principal and Interest in Next Month,

- 15) Form D-11.2: Due Dates of Principal and Interest in the Month after Next,
- 16) Form D-12.1: PFI-wise Due Dates of Principal and Interest in Next Month, and
- 17) Form D-12.2: PFI-wise Due Dates of Principal and Interest in the Month after Next.

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

## **17. Promotion of the Project**

### **17.1. Publicity Promotion**

JICA-PIU takes a leadership role in developing the publicity promotion. It will organize various means of promotion including but not limited to; posters, booklet, brochure, video, newspaper advertisement, TV run messages, etc. JICA-PIU, with the assistance of the consultants, plans, prepares and executes the publicity promotion in active utilization of the means and media discussed. JICA-PIU will consider and discuss the publicity promotion with the parties concerned for building safety promotion including but not limited to; BGMEA, BKMEA, BGAPEMA etc. in seeking the opportunities of co-working for promoting the Project. Participation of the PFIs in such activities is expected.

### **17.2. Advisory Services**

The advisory services that the PFIs are expected to render to the End-borrowers;

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

### **17.3. Capacity Building of PFIs' Official**

JICA-PIU in cooperation with UBSP consultants under PWD-PIU may be requested by the PFI for assisting the establishment of training programs and its execution. Both PIUs may extend assistances to the PFI in such manners as; holding seminars/workshop for the Project inviting the PFIs' staff; sending lecturers to the training program that the PFI organizes; developing and providing training materials; extending on-site advices to the branch offices, etc. The PFI is requested to report the performance of the capacity building activities when submitting Form C-4.2, PFI Report on Monitoring Indicators.

## **18. Monitoring**

### **18.1. Monitoring by PFI**

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

- 1) Progress of Individual Sub-project
  - a) Progress and completion of the construction of the Sub-project,
  - b) Proper usage of the Sub-loan proceeds,
  - c) Construction cost and period,
  - d) Orderly start-up and performance in operation, and
  - e) Social and Environmental Protection.
- 2) Financial Conditions of End-borrower
  - a) Overall business performance of the enterprise,
  - b) Overall cash flow of the enterprise,
  - c) Assets and liabilities,
  - d) Trend of profits,
  - e) Sufficiency in working capital,
  - f) Constraints in financing,
  - g) Difficulty in debt servicing, and
  - h) Change in overall employment.
- 3) Overall Soundness of the Sub-loan Portfolio
  - a) Number of Sub-loans approved,
  - b) Amount disbursed in Sub-loans,
  - c) Amount collected from Sub-loans,
  - d) Sub-loans rescheduled,
  - e) Sub-loans in arrear,
  - f) Sub-loans in default, and
  - g) Sub-loans classified as non-performing loan.

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

### **18.2. Measurement of Monitoring Indicators**

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

- 1) Operation and Effect Indicators
  - a) Total loan outstanding of the PFIs to building safety, and

- b) Ratio of building safety lending in total loan outstanding of the PFIs.
- 2) Supporting Indicators
  - a) Number of Sub-loan cases disbursed under the Project,
  - b) Cumulative amount of Sub-loans disbursed under the Project,
  - c) TSL loan (Sub-loan) outstanding of the PFIs to building safety,
  - d) TSL (Sub-loan) ratio in total building safety loan outstanding of the PFIs,
  - e) Total outstanding of the PFIs' short to long term lending to building safety,
  - f) Ratio of the short to long term lending in total loan outstanding of the PFIs,
  - g) Collection ratio of TSL (Sub-loan),
  - h) Ratio of the amount of Sub-loans in arrear in total Sub-loan outstanding (infection ratio),
  - i) Ratio of the numbers of Sub-loans in arrear in total number of Sub-loans, and
  - j) Number of seminars held by JICA-PIU to the PFIs.

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

### **18.3. Monitoring of Social and Environmental Impact**

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

### **18.4. Monitoring by JICA-PIU**

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

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

### **18.5. Periodical Reporting**

JICA-PIU shall report the findings from monitoring activities in sending JICA and Project Management Committee Headed by BFID, the Quarterly Progress Report whose format is

exemplified under the title of Project Status Report in the M/D. For compilation of the Project Status Report, JICA-PIU shall require the PFI to submit periodically the pertinent data and information in the forms of Form C-3.2, PFI Report on On-going Sub-project Summary, Form C-5.2, PFI Report on Current Repayment and Overdue Status, Form C-4.2, PFI Report on Monitoring Indicators and other ones that would be reasonably requested.

#### **18.6. Monitoring by Project Management Committee 1 (PMC1)**

The PMC1 headed by BFID, convenes at least quarterly and discusses policy issues relevant to the implementation and management of the Project, including but not limited to the following;

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

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

#### **18.7. Inspection**

The inspection shall be initiated by MOF-BFID, BB and/or JICA-PIU in cooperation with UBSP consultant under PWD-PIU. It will involve physical visits to the End-borrower and to the Sub-project and therefore, the PFI and the End-borrower shall be required to accept such and to extend cooperation required by the Inspecting Institution and its Inspector.

#### **18.8. Impact Assessment**

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

## **19. Reporting**

JICA requires the following reports to be submitted regularly at the intervals stated. The formats for reporting are included in the Project Memorandum dated February 2016 signed between JICA and the Government of Bangladesh. The flow of work for monitoring and reporting can be referred to the attached Chart F, Workflow for Monitoring,

### **19.1. On-going Sub-projects Summary Report**

To be submitted quarterly until three years after the Completion of the Project in the Format “Appendix 31 to M/D”<sup>13</sup>. The PFI shall provide JICA-PIU with the pertinent data required by JICA-PIU for preparing the report to JICA in the Form C-3.2, PFI Report on On-going Sub-project Summary, within fifteen (15) days after the end of each quarter.

### **19.2. Current Repayment and Over-due Status Report**

To be submitted annually until three years after the Completion of the disbursement in the Format “Appendix 27 to M/D”. The PFI shall provide JICA-PIU with the pertinent data required by JICA-PIU for preparing the report to JICA in the Form C-5.2, PFI Report on Current Repayment and Overdue Status, within fifteen (15) days after the end of each quarter.

### **19.3. Quarterly Progress Report**

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

### **19.4. Project Completion Report**

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

### **19.5. Audit Report**

The Audit shall be made on the Statement of Designated Account, Project Operating Account, Revolving Fund Account and Statement of Expenditures by an independent auditor and be submitted to JICA annually within six months after the end of each fiscal year until three years after the Completion of the disbursement. The report should be submitted in the form as determined by the auditor in reference to the standard format being attached to L/A in Attachment I and III and shown in Appendix 28 of M/D.

### **19.6. PFI Performance Review**

To be submitted annually to JICA until three years after the Completion of the disbursement

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<sup>13</sup>The Completion of Project is defined as (i) the last JICA’s disbursement for Two Step Loan under the Loan Agreement of the Project or (ii) the expiry of the Loan Agreement period of the Project, whichever comes first.

**19.7. PFIs' Annual Reports**

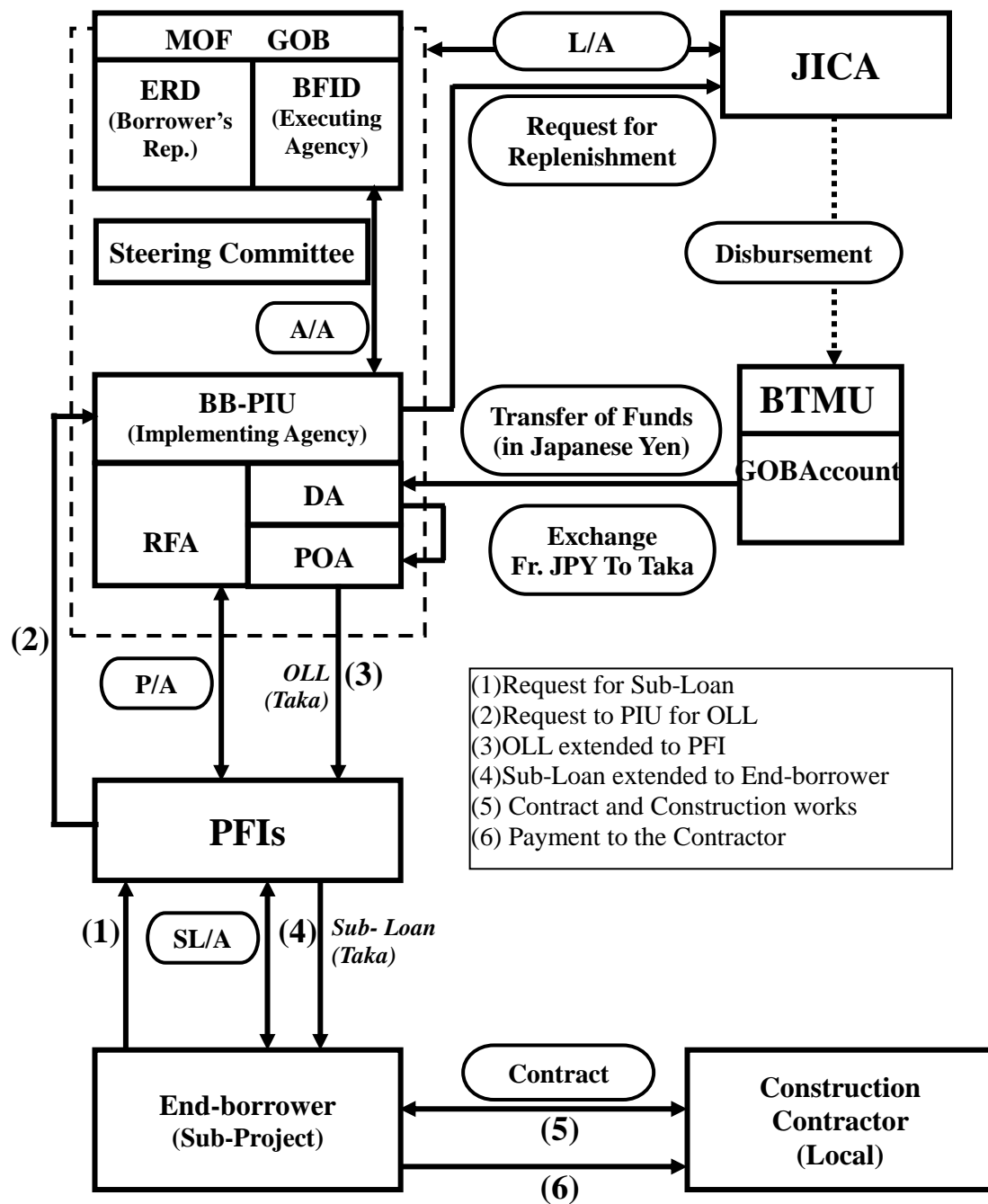
To be submitted annually until three years after the Completion of the disbursement.



**ANNEX I: Requirement for Modification of Policy Guidelines**

<b>Guideline</b>	<b>Authority for significant modification</b>	<b>Reporting Requirement</b>
<b>Steering Committee</b>		
composition	Ministry of Housing and Public Works/MOF-BFID/ JICA	-
member	-	Ministry of Housing and Public Works/MOF-BFID
<b>Project Management Committee1</b>		
composition	MOF-BFID	-
member	-	MOF-BFID
<b>Project Implementation Unit</b>		
organogram	MOF-BFID / BB	JICA
functions	MOF-BFID / BB	JICA
<b>Administration Agreement</b>		
covenants	-	JICA
<b>Participation Agreement</b>		
terms and conditions	Project Management Committee 1/ JICA	-
eligibility criteria	Project Management Committee 1/ JICA	-
other covenants	Project Management Committee 1	JICA
<b>Sub-loan Agreement</b>		
obligations	Project Management Committee 1	JICA
<b>Participating Financial Institutions (PFIs)</b>		
accreditation criteria	Project Management Committee 1/ JICA	-
list of accredited PFIs	JICA-PIU/ JICA	Project Management Committee 1

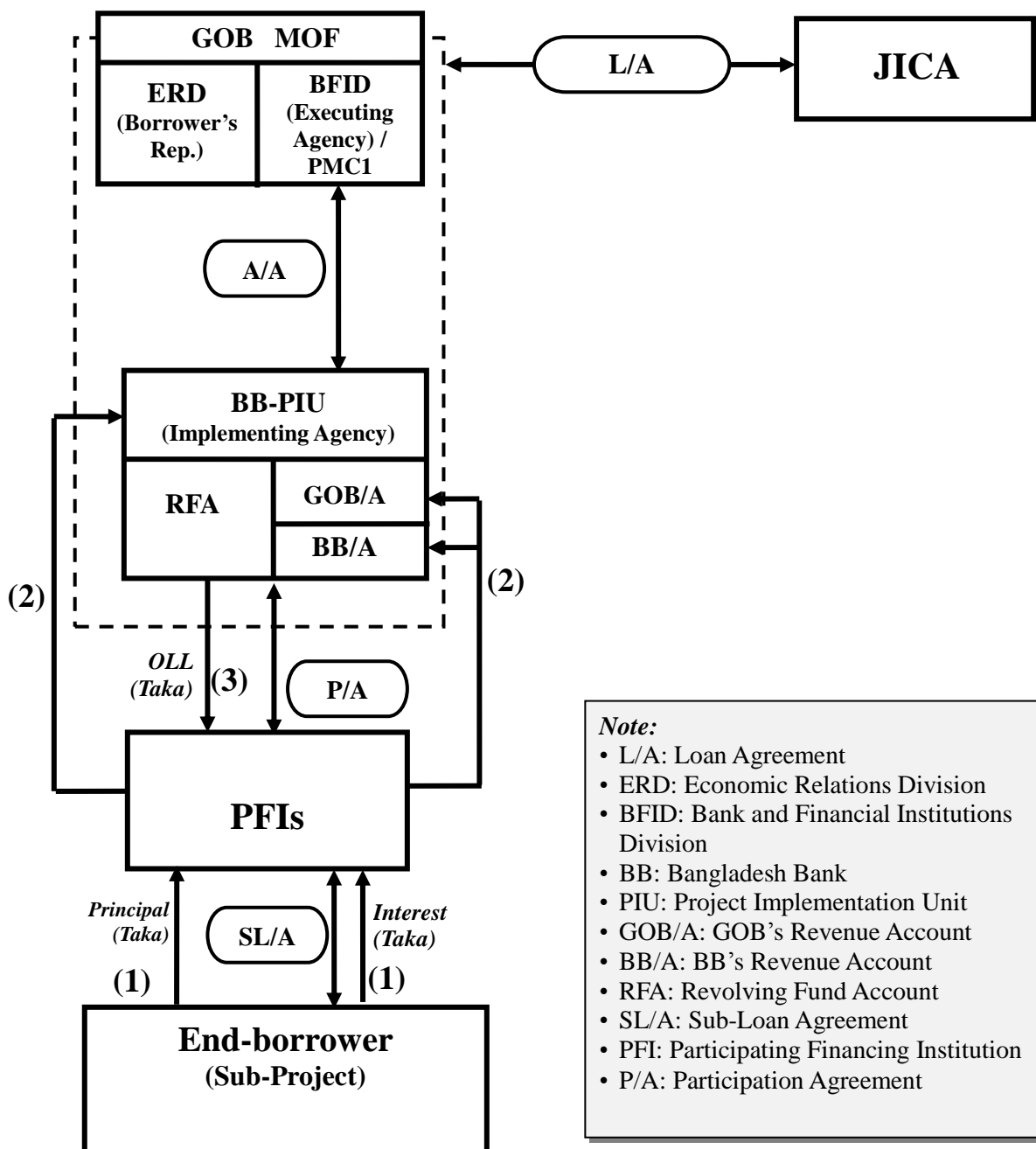
**ANNEX II: Key Players and Funds Flow of the TSL under UBSP (Disbursement)**



Note: DA : Designated Account  
RFA : Revolving Fund Account  
OLL : On Lending Loan  
BTMU : Bank of Tokyo Mitsubishi UFJ

POA : Project Operating Account  
SL/A : Sub-Loan Agreement  
D/D : Detail Design

### ANNEX III: Key Players and Funds Flow of the TSL under UBSP (Repayment)



- (1) Repayment of Interest and Repayment of Principal  
 (2) Repayment of Interest and Repayment of Principal on OLL  
 (3) OLL extended to PFI

## ANNEX IV: Participation Agreement

### Participation Agreement between Bangladesh Bank and .....

This Agreement is signed on the day of 20\_\_\_\_

#### BETWEEN

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

#### And

a)<sup>14</sup>duly established under Companies Act of 1913/1994 and carrying on its business under BB's license No. \_\_\_\_\_ dated \_\_\_\_\_ having its head office, at \_\_\_\_\_, Dhaka (hereinafter called the Participating Bank).

b)<sup>15</sup>duly established under Companies Act of 1994 and carrying on its business under BB's license No. \_\_\_\_\_ dated \_\_\_\_\_ having its head office, at \_\_\_\_\_, Dhaka (hereinafter called the Participating Financial Institution).

#### Preamble

Whereas:

- (A) Japan International Cooperation Agency (JICA) has provided a loan fund of Japanese Yen xxxx million to Government of Bangladesh (GOB) under Urban Building Safety Project (Loan No. BD-P84 dated December 13, 2015) for strengthening factories of RMG sector and private buildings in Dhaka District, Gazipur District, Narayanganj District and Chittagong city (hereinafter called the "TSL Project") introduced by BB through its XXXX Circular No. \_\_\_\_\_ dated \_\_\_\_\_, 2016, to provide On-lending Loans to banks and financial institutions for lending to Building Safety, Fire Safety and other items stipulated in the Operating Guidelines;
- (B) Bangladesh Bank has been entrusted with the responsibility to administer the TSL under UBSP on behalf of GOB under the Administration Agreement dated March 27, 2016;
- (C) It is requested to enter into a participation agreement between BB and the lending banks and non-bank financial institutions interested to avail of the On-lending Loan facilities out of JICA fund; and
- (D) Whereas the PFI fulfills the eligibility criteria as set forth in clause of xxx Circular No. \_\_\_\_\_, dated 2016 and is willing to avail of the On-lending Loan facility from the above mentioned fund on terms and conditions described in the said Circular.

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

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<sup>14</sup>Applicable for Private Banks

<sup>15</sup>Applicable for Financial Institutions

## 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 Programmes Department of Bangladesh Bank.
- (c) “JICA-PIU” means a unit established at SMESPD of BB to specifically handle all relevant tasks related to the TSL under UBSP.
- (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 UBSP.
- (g) “RMG” means Ready Made Garments.
- (h) “End-borrower” means an enterprise satisfying the criteria described in paragraph 13 of this Agreement for receiving a Sub-loan from a PFI.
- (i) “Sub-loan” means a loan provided by the PFI to an owner of factory or owner of factory building of RMG and an owner of private building as described in paragraph 13 of this Agreement.
- (j) “Sub-project” means an investment project of an end-borrower to be financed by a Sub-loan.

## Article – II

### **Objectives and Target End-borrower:**

#### **Section 2**

The PFI declares its commitments to the objectives of the TSL Project introduced by BB through **UBSP Circular No.      dated** and to this end, carries out its building safety lending program with due diligence and efficiency and in conformity with the Operating Guidelines for the TSL Project attached to the said Circular and appropriate administrative, financial and banking practices.

### **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 for strengthening building safety through retrofitting, rebuilding or relocation, fire safety equipment and related facilities, working capital during construction and production equipment.
- (2) The PFI will be required to submit Demand Promissory Note amounting equal to the disbursement each time it receives refinancing or pre-financing under this Agreement.

## **Article – III**

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

#### **Section 4**

- (1) The On-lending Loan will be available only for loans having following maturities:
  - (a) Long term : More than 5 years and up to 15 years.
  - (b) Medium term: Not less than 2 years and up to 5 years.
  - (c) Short term : 1 year,
- (2) The On-lending loans shall be repaid by the PFI in accordance with fixed repayment schedule as prepared by BB. Repayment terms for On-lending Loans of different maturities shall be as under:

#### **Long term:**

Repayable within fifteen years, including grace period during construction, from the date of disbursement in equal quarterly installments.

#### **Medium term:**

Repayable within five years, including grace period during construction, from the date of disbursement in equal quarterly installments.

#### **Short term:**

Repayable within one year from the date of disbursement.

#### **Section 5**

- (1) BB shall charge interest on the On-lending Loan at the prevailing Bank Rate. The PFI shall apply the interest rate maximum of 9% on the Sub-loans made to the End-borrowers.

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

#### **Section 6**

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

#### **Section 7**

BB shall have the discretion to refuse any request for On-lending Loan made by the PFI 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. datedxxx**.

#### **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 prove to be false or incorrect, BB shall have the right to impose and receive excess charge as penalty at the rate of the Bank Rate on the amount of the On-lending Loan as well as to recall the entire outstanding loans with interest by way of debiting the current account of the concerned PFI.

#### **Section 9**

- (1) In case that a PFI fails to repay any installment of loans as per the repayment schedule, BB may realize the installment amount plus applicable interests by debiting them against the current account of the concerned PFI maintained with BB.
- (2) In case the PFI requests BB, in advance, to make delay in realizing the repayment of due amount on On-lending Loan on valid ground, PFI shall pay a penalty of 3% above the bank rate until 3 working days and 5% above the bank rate thereafter..

### **Article – IV**

#### **Miscellaneous**

#### **Section 10**

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

- (a) maintain a sound financial structure, a health portfolio, and the organization, management, staff and other resources required for the efficient carrying out of its activities;
- (b) conduct its operation and affairs including interest rate policies in accordance

with sound financial principles and practices:

- (c) maintain a lending and investment policy conducive to the growth and development of 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 BB's SMESPD Circular No. xxx dated xxx 2016 as well as the Operating Guidelines for the TSL Project;
  - (ii) supervise and monitor the proper use of the Sub-loans by End-borrowers; and
  - (iii) undertake not to assign, amend, abrogate or waive any of its agreements with the End-borrower providing for loans or investments or any provision thereof without the approval of BB.

## **Section 11**

The 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 JICA, and comply with the obligations under the Participating Agreement in order to achieve the purpose of the TSL Project including the right to:

- (a) inspect by BB itself or jointly with representatives of the GOB and/or the JICA, such 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, GOB or JICA shall request relating to the forgoing and to the administration, operation and financial conditions of the End-borrower and to the benefit to be derived from the concerned Sub-project, including but not limited to the evidence of use of the proceeds of the Sub-loan, financial statements for every accounting term;
- (c) suspend or terminate the right of the End-borrower to the use of the proceeds of the Sub-loan upon failure by such End-borrower to perform its obligations under its contract with the PFI; and
- (d) cause to comply with all the environmental regulations established by GOB and JICA's guidelines for environmental and social consideration; and
- (e) cause PWD-PIU to review the design and inspection for the sub-projects.

## **Section 12**

Sub-loan under the TSL Project shall be used by End-borrowers exclusively for the purpose of the Sub-project, including (i) construction works for retrofitting, rebuilding or



relocation, (ii) Fire safety equipment and installation of firewall, (iii) working capital during construction (only with (i) above), (iv) equipment and machineries (only with (i) above ).

### **Section 13**

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 14**

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

Witness:

For and on behalf of

Bangladesh Bank

.....

.....

(Authorized Representative)

Witness:

For and on behalf of

(Participating Bank/ Financial Institution)

.....

.....

(Authorized Representative)

## ANNEX V: Ineligible Investment Activities List

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

### Sensitive Sectors

#### Sensitive Areas

Projects in the following areas or their vicinity

- (1) National parks, nationally-designated protected areas (coastal areas, wetlands, areas for ethnic minorities or indigenous peoples and cultural heritage, etc. designated by national governments)
- (2) Areas considered to require careful consideration by the country or locality
  - <Natural Environment>
    - a) Habitats of rare species requiring protection under domestic legislation, international treaties, etc.;
    - b) Areas in danger of large-scale salt accumulation or soil erosion; or
    - c) Areas with a remarkable tendency towards desertification
  - <Social Environment>
    - a) Areas with unique archeological, historical or cultural value;
    - b) Areas inhabited by ethnic minorities, indigenous peoples or nomadic peoples with traditional ways of life and other areas with special social value

#### Prohibited Investment Activities List

- (1) Production or activities involving harmful or exploitative forms of forced labor<sup>16</sup> or child labor<sup>17</sup>;
- (2) Production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phase-outs or bans, such as (a) pharmaceuticals<sup>18</sup>, pesticides, and herbicides<sup>19</sup>, (b) ozone-depleting substances<sup>20</sup>, (c) polychlorinated biphenyls<sup>21</sup> and other hazardous chemicals<sup>22</sup>, (d) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora<sup>23</sup>, and (e) trans-boundary trade in waste or waste products<sup>24</sup>;

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<sup>16</sup> Forced labor means all work or services not voluntarily performed, that is, extracted from individuals under threat of force or penalty.

<sup>17</sup> Child labor means the employment of children whose age is below 14.

<sup>18</sup> A list of pharmaceutical products subject to phase-outs or bans is available at <http://www.who.int>.

<sup>19</sup> A list of pesticides and herbicides subject to phase-outs or bans is available at <http://www.pic.int>.

<sup>20</sup> A list of the chemical compounds that react with and deplete stratospheric ozone resulting in the widely publicized ozone holes is listed in the Montreal Protocol, together with target reduction and phase-out dates. Information is available at <http://www.unep.org/ozone/montreal.shtml>.

<sup>21</sup> A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.

<sup>22</sup> A list of hazardous chemicals is available at <http://www.pic.int>.

<sup>23</sup> A list is available at <http://www.cites.org>.

<sup>24</sup> As defined by the Basel Convention; see <http://www.basel.int>.

- (3) Production of or trade in weapons and munitions, including paramilitary materials;
- (4) Production of or trade in alcoholic beverages, excluding beer and wine<sup>25</sup>;
- (5) Production of or trade in tobacco<sup>18</sup>;
- (6) Gambling, casinos, and equivalent enterprises<sup>18</sup>;
- (7) Production of or trade in radioactive materials<sup>26</sup>, including nuclear reactors and components thereof;
- (8) Production of, trade in, or use of unbonded asbestos fibers<sup>27</sup>;
- (9) Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests;
- (10) Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats; and
- (11) Production or activities that impinge on lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

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<sup>25</sup>This does not apply to project sponsors who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a project sponsor's primary operations.

<sup>26</sup>This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which ADB considers the radioactive source to be trivial and/or adequately shielded.

<sup>27</sup>This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

**ANNEX VI: Terms and Conditions of Sub-loans**

Lender	The PFIs (The eligible banks and financial institutions)																																																							
Borrower	Clients of PFIs are factory owners or building owners of RMG factory. The owner of commercial building will be approved by PMC1.																																																							
Location	RMG factory or commercial building located in Dhaka, Narayanganj, Gazipur District and Chittagong city Areas.																																																							
Currency:	Bangladesh Taka																																																							
Amount	<p>Size of the sub-loan shall be within 350 million BDT.. (With the approval of PMC1 more than 350 million BDT may be approved as sub-loan).</p> <p>The table below shows estimated reference cost required for strengthening a factory by three methods, retrofitting, rebuilding and relocation. All costs include standard level of fire safety facilities, water and electrical works set under BNBC. Area of factory is referred to the Labor Act 2006 which stipulates as 9.5 cubic meters require a person which is equivalent 3.17 square meters per person. It is noted that all costs in the table will be reviewed from time to time.</p> <p style="text-align: right;">(Million Taka)</p> <table><tr><th>Number of Employee</th><th>Area of factory (a)</th><th>Rebuilding (b)</th><th>Relocation (c)</th><th>Retrofitting</th></tr><tr><td>1,000</td><td>3,167</td><td>238</td><td>191</td><td>60</td></tr><tr><td>1,500</td><td>4,750</td><td>357</td><td>287</td><td>91</td></tr><tr><td>2,000</td><td>6,333</td><td>476</td><td>383</td><td>121</td></tr><tr><td>2,500</td><td>7,917</td><td>595</td><td>479</td><td>151</td></tr><tr><td>3,000</td><td>9,500</td><td>714</td><td>575</td><td>181</td></tr><tr><td>3,500</td><td>11,083</td><td>833</td><td>671</td><td>212</td></tr><tr><td>4,000</td><td>12,667</td><td>952</td><td>767</td><td>242</td></tr><tr><td>4,500</td><td>14,250</td><td>1,071</td><td>862</td><td>272</td></tr><tr><td>5,000</td><td>15,833</td><td>1,190</td><td>958</td><td>302</td></tr><tr><td colspan="2">Construction Unit Cost/m<sup>2</sup></td><td>75,190</td><td>60,523</td><td>19,090</td></tr></table> <p>(Note)</p> <p>(a) Expected area of factory in meeting to number of employees. (b) Rebuilding costs include demolishing works. (c) Relocation costs not include demolishing works and land.</p>	Number of Employee	Area of factory (a)	Rebuilding (b)	Relocation (c)	Retrofitting	1,000	3,167	238	191	60	1,500	4,750	357	287	91	2,000	6,333	476	383	121	2,500	7,917	595	479	151	3,000	9,500	714	575	181	3,500	11,083	833	671	212	4,000	12,667	952	767	242	4,500	14,250	1,071	862	272	5,000	15,833	1,190	958	302	Construction Unit Cost/m <sup>2</sup>		75,190	60,523	19,090
Number of Employee	Area of factory (a)	Rebuilding (b)	Relocation (c)	Retrofitting																																																				
1,000	3,167	238	191	60																																																				
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5,000	15,833	1,190	958	302																																																				
Construction Unit Cost/m <sup>2</sup>		75,190	60,523	19,090																																																				

Terms and Conditions	
Maturity:	<ol style="list-style-type: none"> <li>1) Retrofitting; <ul style="list-style-type: none"> <li>• Grace period: Maximum 2 years.</li> <li>• Repayment period: Maximum 10 years including the grace period</li> </ul> </li> <li>2) Rebuilding; <ul style="list-style-type: none"> <li>• Grace period: Maximum 3 years.</li> <li>• Repayment period: Maximum 15 year including grace period.</li> </ul> </li> <li>3) Relocation; <ul style="list-style-type: none"> <li>• Grace period: Maximum 3 years.</li> <li>• Repayment period: Maximum 15 year including grace period.</li> </ul> </li> <li>4) Fire safety only; <ul style="list-style-type: none"> <li>• Grace period: Maximum 2 years.</li> <li>• Repayment period: Maximum 10 years including the grace period</li> </ul> </li> <li>5) Working Capital facilities during the suspension of the business by construction of seismic resistant building (only financed when End-users borrow the loans to ensure the seismic resilient building safety). However, PFIs will justify the necessity of working capital applied for and the amount of working capital should not exceed 10% of total loan for retrofitting/rebuilding/relocation.</li> </ol>
Interest rate:	To be determined by arrangement between PFI and Borrower. However, maximum of 9% can be charged in compliance with the rules and regulations prevailing in Bangladesh.
Repayment Schedule:	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:	Land and buildings, if necessary third party's guarantee will be considered as security which will be determined by arrangement between PFI and Borrower in compliance with the rules and regulations prevailing in Bangladesh
Miscellaneous	The sub-projects under the TSL of UBSP shall be subject to the review of the design and inspection to be done by PWD-PIU and Technical Review Panel in order to conform to the relevant law and regulations.

**ANNEX VII: Terms and conditions of On-lending Loans**

Lender	BB
Borrower	Eligible PFIs
Amount	Synchronized with that of the respective Sub-loan
Currency	Bangladesh Taka
Terms & Conditions:	
Term (grace):	Synchronized with that of the respective Sub-loan
(Working Capital)	Synchronized with that of the respective Sub-loan
Maturity:	Synchronized with that of the respective Sub-loan
Interest rates:	Bangladesh Bank Rate (currently at 5% p.a.) or a rate approved by BFID.
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 on valid grounds with condition that request for such delay shall be made in advance and that a penalty of 3% above the bank rate for 3 working days and 5% above the bank rate thereafter 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.

## ANNEX VIII: Accreditation Criteria for PFIs

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

**(1) Legality**

- (i) Scheduled Banks duly licensed, approved and supervised by BB in accordance with the Banking Companies Act Amendment, 2013; or
- (ii) Non-Bank Financial Institutions duly licensed, approved and supervised by BB in accordance with the Financial Institutions Act, 1993.

**(2) Operational Experiences**

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

**(3) Commitment to RMG sector lending**

Banks and financial institutions must have lending policies and strategy related to Ready Made Garment (RMG) sector.

**(4) Capital Adequacy**

- (i) Banks and financial institutions must fulfill the minimum capital requirement<sup>28</sup> as regulated by BB in its latest audited financial statements.
- (ii) Banks failing to meet the risk weighted capital adequacy ratio<sup>29</sup> as regulated by BB shall not be eligible for PFIs<sup>30</sup>.

**(5) Profitability**

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

**(6) Non-Performing Loans (NPL)**

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

**(7) Problem Banks**

Banks and financial institutions that are classified as the problem bank or the early warning bank according to the CAMELS rating for BB's monitoring and supervision shall not qualify for PFIs.

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<sup>28</sup>As of November 2010, the scheduled banks are required to maintain the minimum capital of Tk 4.00 billion in net worth, of which Tk 2.00 billion has to be maintained as paid-up capital, whereas NBFIs are required Tk 0.5 billion in net worth and the minimum paid-up capital of Tk 0.5 billion.

<sup>29</sup>As of November 2010, all the banks are required to maintain the minimum capital adequacy ratio not lower than: i) 8.0% for the period between January 1, 2010 through June 30, 2010; ii) 9.0% for the period between July 1, 2010 through June 30, 2011; iii) 10.0% for the period beyond July 1, 2011.

<sup>30</sup>At present, non-bank financial institutions (NBFIs) are not subject to the restriction of risk weighted capital adequacy ratio, whereas they must maintain the minimum capital, both in net worth and paid-up capital.

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

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

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

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



## ANNEX IX: Accreditation Assessment Form

### Accreditation Assessment Form

(Name of Financial Institution: )

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

## ANNEX X: Financial Statements

### Attachment to Accreditation Assessment Form

#### Attachment I: Financial Statements

(Name of Financial Institution: \_\_\_\_\_)

(in Taka million)

	2012	Shares (%)	Growth (%)	2013	Shares (%)	Growth (%)	2014	Shares (%)	Growth (%)	Avg. Growth (%)
<b>Balance Sheet</b>										
Cash and cash equiv.		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Short-term liquid assets		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Loans (net)		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Other assets		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
<b>Total assets</b>		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Deposits from customers		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Due to banks & FIs		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Other liabilities		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
<b>Total liabilities</b>		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Share capital		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Other reserves		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Retained earnings		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
<b>Total equity</b>		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
<b>Total liab. &amp; equity</b>		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
<b>Income Statement</b>										
Interest income		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Non-int. income		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
<b>Total revenue</b>		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Net interest income		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Net non-interest income		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
<b>Total net income</b>		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
<b>(=operating income)</b>		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Operating expenses		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Contingent risk expense		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
Net non-operating income		#DIV/0!	-		#DIV/0!	-		#DIV/0!	-	-
<b>Profit bfr tax</b>		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
<b>Net profit</b>		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
<b>Operational Ratios</b>										
Capital adequacy (>10%)			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
Liquidity			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
Single borrower exp. (<20%)			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
Forex exposure (<40%)			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
Loan to deposit	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!
NPL			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
RoE			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!
RoA			#DIV/0!			#DIV/0!			#DIV/0!	#DIV/0!

Source:

Note: The fiscal year ends in

## **ANNEX XI: JICA Guidelines for Environmental and Social Considerations**

**Following is the excerpts of the relevant articles from the JICA Guidelines for Confirmation of Environmental and Social Consideration that is the rule applicable to the Project.**

### **2. Process of Environmental and Social Considerations**

#### **2.1 Information Disclosure**

1. In principle, project proponents etc. disclose information about the environmental and social considerations of their projects. JICA assists project proponents etc. by implementing cooperation projects as needed.
2. JICA itself discloses important information about environmental and social considerations at the main stages of cooperation projects, in a manner in accordance with the guidelines.
3. JICA discusses frameworks with project proponents etc. in order to ensure information disclosure, and comes to an agreement in an early stage of cooperation projects.
4. The information to be disclosed includes that of environmental and social considerations and of the cooperation projects themselves.
5. Besides the information to be disclosed publicly by JICA, JICA provides information about environmental and social considerations to third parties to the extent possible in response to requests.
6. JICA encourages project proponents etc. to disclose and present information about environmental and social considerations to local stakeholders.
7. Project proponents etc. disclose information well in advance when they have meetings with local stakeholders in cooperation with JICA. On these occasions, JICA supports project proponents etc. in the preparation of documents in an official or widely used language and in a form understandable by local people.
8. JICA discloses information on its website in Japanese, English, and/or local languages, and provides related reports for public reading at its library and at related overseas offices.
9. JICA pays due consideration to the confidentiality of the commercial and other matters of Project proponents etc., taking into account their competitive relationships, and encourages them to exclude such confidential information from any documents on environmental considerations that they submit which may later be subject to public disclosure. JICA takes into account information control in Project proponents etc. and discloses their documents subject to their approval. Any information that is prohibited from public disclosure in the agreement between JICA and Project proponents etc. may be disclosed only through the agreement of Project proponents etc. or in accordance with legal requirements.

#### **2.2 Categorization**

1. JICA classifies projects into four categories according to the extent of environmental and social impacts, taking into account an outline of project, scale, site condition, etc.
2. Category A: Proposed projects are classified as Category A if they are likely to have significant adverse impacts on the environment and society. Projects with complicated or unprecedented impacts that are difficult to assess, or projects with a wide range of impacts or irreversible impacts, are also classified as Category A. These impacts may affect an area broader than the sites or facilities subject to physical construction. Category A, in principle, includes projects in sensitive sectors, projects that have characteristics that are liable to cause adverse environmental impacts, and projects located in or near sensitive areas. An

illustrative list of sensitive sectors, characteristics, and areas is provided in Appendix 3.

3. Category B: Proposed projects are classified as Category B if their potential adverse impacts on the environment and society are less adverse than those of Category A projects. Generally, they are site-specific; few if any are irreversible; and in most cases, normal mitigation measures can be designed more readily.
4. Category C: Proposed projects are classified as Category C if they are likely to have minimal or little adverse impact on the environment and society.
5. Category FI: Proposed projects are classified as Category FI if they satisfy all of the following requirements: JICA's funding of projects is provided to a financial intermediary or executing agency; the selection and appraisal of the sub-projects is substantially undertaken by such an institution only after JICA's approval of the funding, so that the sub-projects cannot be specified prior to JICA's approval of funding (or project appraisal); and those sub-projects are expected to have a potential impact on the environment.
6. When necessary, JICA can change a category even after screening. This might occur such as when a new significant impact has come to light as a result of the cooperation project process, or in other specific situations.
7. Projects may not be clearly specified at an early stage of a Master Plan Study. In such cases, the study is categorized based on its likely significant impacts. At that time, derivative, secondary, and cumulative impacts are also considered. When considering plural alternatives, projects are classified in the category of the alternative that has the most significant impact. JICA reviews the categorization accordingly after projects have been identified with a progression of studies.
8. JICA requests that Project proponents etc fill in the screening form found in Appendix 4; the information in this form will be a reference for the categorization of proposed projects.

## **ANNEX XII: Technical Guidance for the TSL Project under UBSP**

This Guidance is made for the Applicant to understand the UBSP from the engineering view point since financing to building safety will be evaluated integrally with technical aspects so as to be inseparable. For financial and technical procedures including qualification for loan necessary for the applicants is described herein 2.2 of Chapter 2 in the Operating Guidelines. It is therefore recommended for all applicants who wish to apply for building safety loan to read the Guidance in order to deepen the understandings about the loan relating to the technical aspects.

The Guidance is divided into following four steps, namely 1) screening, 2) simple evaluation, 3) survey / evaluation / design, and 4) construction, which can be compared to medical treatment such as 1) reception, 2) interview, 3) inspection / diagnosis / prescription, and 4) surgery and treatment operation.

### **STEP 1: Screening of Application Documents**

For the first step, the application documents for the building safety submitted by applicants will be reviewed. The application form consisting of six (6) key items: basic information including address of the building, ownership of the building, scale of the building, structural type of the building, approved design and drawings of the building and association they belonged will be confirmed.

In the first step, taking into account the implementation of the strengthening of buildings, both the drawings for the building permit and the current as-built drawings are most important documents. When no drawings are available, that application should not be accepted as the candidate for the building safety loan.

### **STEP 2: Initial Assessment**

In the step 2, three types of evaluations will be performed. They are the (1) Simplified Evaluation, (2) Deviation Survey and (3) Advanced Simplified Evaluation.

#### **(1) Simplified Evaluation:**

Simplified Evaluation is to know the features of the building against gravity and seismic loads at the time of design and permit stage. Therefore, the architectural and/or structure drawings when building permit was made are necessary.

#### **(2) Deviation Survey;**

Deviation Survey will be conducted to investigate the differences between the current building and the permitted drawings for the distribution, area for number of workers, setback and configuration of stairs, etc. Therefore, the site survey at the target buildings is necessary after the owners accepted the step 2.

#### **(3) Advanced Simplified Evaluation (ASE);**

Finally, Advanced Simplified Evaluation (ASE) will be performed, which requires more site oriented information and drawings. During ASE, a rough estimate of cost for seismic strengthening is provided. The ASE provides useful information for owners to select which type of seismic strengthening methodologies is suitable. That can be utilized as referential information for the owners in negotiation with the bank.

When the owners select one of the types of strengthening from retrofitting, rebuilding and relocation, they will get into the way for borrowings and try to confirm the assurance of their banks to proceed to the next step.

However, if the owners select the type of rebuilding and relocation, they proceed to the Step 4

skipping the step 3 which is necessary only for retrofitting case.

### **STEP 3: Seismic Evaluation and Seismic Design;**

The evaluation in step 3 is conducted only when the seismic retrofitting is chosen. The Detailed Seismic Evaluation and the Seismic Retrofitting Design are carried out based on the result of the Detailed Building Survey for the target building.

In the Detailed Building Survey, the current situation from the as-built drawing tested materials such as strength of concrete and the current characteristics of the building will be revealed in detail.

Then, using such information, both Detailed Seismic Evaluation and Seismic Retrofitting Design will be conducted. As the result, the detailed cost of the retrofitting works will also be estimated. It is recognized for owners that the cost estimated at this time is often different from the rough cost estimated by ASE. Therefore for loan negotiation, the owners are kindly advised to understand the change in cost estimation caused by each evaluation and to pay attention to show the estimated cost to the financing institutions.

When the Seismic Retrofitting Design is completed, taking into account the time and the cost required for the Retrofitting Construction Works, the owners have a final chance to select and decide the method of strengthening among retrofitting, rebuilding or relocation.

It is noted that PWD-PIU will be responsible for estimating cost and implementation of the building survey for the seismic retrofitting evaluation and design works. But if the owner will select the construction of new building, for such case, the cost and design for relocation and rebuilding will be prepared by the owner side utilizing loan proceeds.

### **STEP 4: Seismic Retrofitting Works, and New Construction Works;**

If the owners choose the rebuilding or relocation, the owners will employ a design consultant and using the loan for the New Building Design including demolition of the existing building.

And when the detail design of retrofitting or new building for rebuilding and relocation is completed with the cost estimation, the owner can get into the construction stage. Then, the owners will select a contractor through tendering and start construction works.

But it should be advised for the owners that before the commencement of the construction works, the loan shall be approved by the bank. After the loan has been approved, the owners will implement the Seismic Retrofitting Construction Works by the selected contractor. For the purpose of realizing the high quality of the construction, the construction works shall be supervised and inspected by a certain consultant under the top supervision of UBSP's consultant. Especially in case of retrofitting works, owner is recommended to select a capable contractor based on the selection from the shortlisted contractors which are selected by the Project.

It should be noted that, with regard to every construction works, from the view point of quality management, PWD-PIU will review the result of intermediate and completion inspection with the view point from compliance to the BNBC.

### **ANNEX-XIII: Application for the financing facility under UBSP funded by JICA**

Application for Financing under Urban Building Safety Project  
Funded by JICA  
(Retrofitting/Rebuilding/Relocation)

Please affix First  
Owner's PP size  
Photograph

#### **A. Organization Information**

1. **Name of the Organization/Company:**

2. **Status of the company:**

Proprietorship ☐ Partnership ☐ Joint Venture ☐ Private Limited ☐

3. **Year of Establishment** .....

4. **Main Products** .....

5. **Main Clients** .....

6. **Name of CEO** .....

7. **Share Holders/ Directors:**

Sl. No	Name of Share Holders	Designation	% of Share
1			
2			
3			
4			
5			
6			

#### **B. Factory Information**

1. **Name of Factory** :-----

2. **BGMEA/BKMEA/BGAPMEAMembership No**:-----  
-----

**Tel.No (Office)**:----- **(Residence)**:-----

**Fax**: ----- **Cell No.**:----- **E-mail**:-----

3. **Address**:-----  
-----

4. **Contact person**: ----- **Cell No**: -----

5. **Availability of drawings and documents**

☐ Structural Design ☐ Soil Test Report ☐ Approved Plan

☐ Architectural Design ☐ Electrical Design

6. **Name and address of Design Organization**:

- a. Architectural-----  
b. Structural-----  
c. Electrical-----
7. Name and address of Soil Testing Firm-----IEB No. -----
8. Name of Designer:  
a. Structural -----IEB No.-----  
b. Architectural-----IAB No.-----  
c. Electrical-----IEB No.-----
9. Name and address of construction firm:-----
10. Name of Supervising Engineer: ----- IEB No.-----
11. Test Results of Materials during Construction:  
a. Concrete -----b. Re-bar----- c. Others-----
12. Plan approved by (Name of Organization):----- Date-----
13. Approved for: ----- storied; Construction completed -----floor
14. Nature of Building: ☐ Purposely Made, ☐ Share, ☐ Converted
15. Floor Area: a. Per Floor-----sqft b. Total-----sqft
16. RCC Building: ☐ Yes ☐ No
17. Ownership: ☐ Self Owned ☐ Rental
18. Number of workers a. Male ----- b. Female-----
19. Compliance Certificates from  
a. ----- b. -----  
c. ----- d. -----

I hereby certify the correctness of figures/data/information and documents furnished herein/herewith. I also hereby undertake to furnish further particulars as may be required by the Authority and abide by the rules, regulations and instructions issued by the Management of loan approval authority. I also agree to act according to the recommendations of the PWD & CNCRP expert team.

Management reserves the right to sanction/reject the loan based on assessment.

Signature of the Applicant

Date:



### **Addendum**

Pursuant to the decision of the Government of the Peoples' Republic of Bangladesh (Represented by Finance Division of Ministry of Finance), the interest rate of onlending loan (OLL) and sub-loan at end-borrower level will be 2% and maximum of 6% respectively. In this context, the following sections of the approved Operating Guidelines by the Project Management Committee-1 of the UBSP on 27 July 2016 will be read as-

#### 2.2. Financial and Technical Procedures for the End-Borrower

(5) Interest Rate : Will be up to 6%.

#### Annex IV: Participation Agreement

##### Article-III(Section 5)

(1) BB shall charge interest on the On-lending Loan at the rate of 2% (which is approved by the Ministry of Finance). The PFI shall apply the interest rate maximum of 6% on the sub-loan made to the End-borrowers.

#### Annex VI: Terms and Conditions of Sub-loans

Interest Rate:	To be determined by arrangement between PFI and Borrower. However, maximum of 6% can be charged in compliance with the rules and regulations prevailing in Bangladesh.
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#### Annex VII: Terms and Conditions of On –Lending Loans

Interest Rate:	2% which is approved by Ministry of Finance.
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