

BANGLADESH BANK

(Central Bank of Bangladesh) SME & Special Programmes Department
 Head Office CECRFP
 Motijheel, Dhaka-1000
 Bangladesh
 SMESPD Circular No. 06 Dated : 23 June, 2021
 Managing Director/Chief Executive Officer
 All Banks and Financial Institutions in Bangladesh
 Head Office
 Dhaka.

Additional Refinance fund for COVID-19 affected Cottage, Micro, Small and Medium Enterprises (CMSME) sector under "COVID-19 Emergency and Crisis Response Facility Project (CECRFP, L0415-A)" funded by Asian Infrastructure Investment Bank (AIIB)

A loan agreement was signed by the Government of People's Republic of Bangladesh (GoB) with the Asian Infrastructure Investment Bank (AIIB) on February 26, 2021 to carry out COVID-19 Emergency and Crisis Response Facility Project (CECRFP) with a view to support credit expansion and reduce liquidity constraints of CMSMEs brought on by the COVID-19 pandemic. In pursuance of the Subsidiary Loan Agreement (SLA) signed between Finance Division of the Ministry of Finance and Bangladesh Bank (BB), Bangladesh Bank has been assigned the responsibility to carry out the said project. The project is aligned with the stimulus package for CMSMEs announced by the GoB amounting to BDT 200 billion (SMESPD Circular -01 dated 13 April, 2020) and Bangladesh Bank's refinance scheme amounting to BDT 100 billion (SMESPD Circular-02 dated 26 April, 2020) and also aligned with the subsequent changes as made in different circular letters of SME&SPD regarding Circular No-01/2020 & Circular No-02/2020.

2. The said refinance facility from AIIB amounting USD 300 million (BDT. 2,520 Crore) is available to provide liquidity support to Banks and FIs parallel to BB's own refinance facility to CMSME stimulus package being implemented by Banks and FIs. Under this facility, the Participating Financial Institutions (referred to as PFIs) would be able to get additional refinance up to 50% of their lending under CMSME Stimulus Package, which would raise the facility up to 100% under the combination of AIIB facility and BB's own refinance scheme. This refinance facility would be operated as per Operations Manual (OM) attached herewith. However, the following main instructions will be followed to govern the AIIB funded refinance facility:

2

a) Name of the Project: COVID -19 Emergency and Crisis Response Facility Project (CECRFP)

b) Source of Fund: Asian Infrastructure Investment Bank (AIIB).

c) Amount of Funds: USD 300 million (BDT. 2,520 Crore; USD 1=BDT. 84).

d) Period: 03 (three) years.

e) Interest/Profit Rate: The interest/profit rate will be 4% (Four Percent) for refinancing loan, which will be charged on quarterly basis (based on March, June, September and December).

f) Allocation of bank/FIs-wise Fund: With reference to SMESPD Circular No. 01/2020 and subsequent changes there on, the refinance scheme will facilitate additional 50% fund under CMSME stimulus loan disbursement. The refinance facilities under this

project will be provided based on „First Come First Serve■.

g) Eligibility Criteria of Participating Financial Institutions (PFI): In order to be eligible for financing with proceeds of the project, a PFI must comply with the following criteria-

- i. License from Bangladesh Bank.
- ii. Minimum 3 years operational experiences.
- iii. Must be profitable for at least two consecutive calendar years/fiscal years including the latest one.
- iv. Must be CMSME stimulus package implementing bank or FI.
- v. Meet the minimum Capital Adequacy Requirement.
- vi. The percentage of NPL should not exceed 10% of loan portfolio (Excluding State owned banks).
- vii. Complied with Prudential Guidelines.

h) PFI Agreement: All eligible Banks and FIs must sign an agreement to avail the refinance facilities under this project. Banks/FIs have to follow the rules and regulations concerning to CMSME stimulus loan and refinance facility (SMESPD Circular No.01/2020, SMESPD Circular No.02/2020 and subsequent changes there on) and Operations Manual of the project.

i) Environmental and Social Risk Management issue: All interested Banks and FIs are required to follow the Environmental and Social Risk Management (ESRM) guidelines of Bangladesh Bank while providing CMSME stimulus loan.

j) Procedure for loan application, refinance facilities: Operations Manual of this project has to be followed for processing loan application, refinance facilities and loan recovery.

k) Recovery of Refinancing Loan (RL): BB will realize the amount refinanced to a PFI along with applicable interest/profit/charges on maturity or completion of 1 year, whichever is earlier, from the date of refinance by debiting their current accounts maintained with the Motijheel Office of BB. 3

l) Insufficient balance/fund: At the time of recovery of refinanced facilities and accrued interest there on , Bank and FIs will be imposed 2% additional interest as penalty including interest for the delayed period for insufficient balance or fund in their current account maintained/held in Bangladesh Bank.

m) Document requisition and project inspection: If necessary, Bangladesh Bank may ask for the documents and conduct on -site inspection before or after the approval of refinance facilities.

n) Deadline for submission of application : Interested Banks and FIs to participate in this fund should apply as per the application format annexed with this circular by 15 July, 2021.

o) Other instructions:

- 1) Bangladesh Bank will charge 2% penal interest if refinance under this project is used for any other purpose except the scope of SMESPD circular No. 01/2020 and subsequent changes there on.
- 2) All responsibilities will be borne by the participating banks/FIs for loan recovery from end borrowers.
- 3) All participating banks/FIs have to submit periodic statement as specified by Bangladesh Bank related to the refinance scheme under this project.
- 4) Interested Banks and FIs are requested to go through the Operations Manual before applying. Application must include all required information and documents stated in the application format and in the Operations Manual.

Attachment: As mentioned.

Yours Sincerely,

(Khondaker Siddiquir Rahman)
General Manager
&
Project Director (CECRFP)
Phone: 01718956537 4

Project Director
COVID-19 Emergency and Crisis Response Facility Project(CECRFP)
SME & Special Programs Department
Bangladesh Bank, H.O
Dhaka-1000.

Dear Sir,

Letter of Intent to become Participating Financial Institutions under AIIB funded
COVID-19 Emergency and Crisis Response Facility Project(CECRFP, L0415-A)

With reference to the SMESPD Circular no...../2021 dated2021 we intend to express our interest in participating in the project. We attach the documents as required for your kind consideration. We also furnish the information as sought in the annexure of the circular and in the Operations Manual.

We, therefore, request you to consider our application and allow us to work with you for the development of CMSME sector in Bangladesh through our active participation in CECRFP finance.

Thanking you

Truly yours,

()
CEO/MD
Bank/FI Name

5

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 Establishment Year:
Experiences (Copy of audited financial statements for the latest 3 years attached) (> 3 years)

(3) CMSME Financing Committed to support CMSME sector for Covid-19 emergency and crisis response facility.

(4) Capital Adequacy

(a) Capital Taka billion (as of):
in Net Worth

(b) Paid-up Capital Taka billion (as of):

(c) Capital (as of):
Adequacy Ratio (evaluated by BB) (> 10 %)

(5) Profitability Net Profit Taka billion(in Fiscal Year ending):

Taka billion (in Fiscal Year ending):

(> 0)

(6) Non-Performing NPL Ratio: (as of):

Loans (NPL)

(< 10 %)

(7) CAMELS Rating Determined rating for the Fiscal Year ending): (=< 3)

(8) Prudential “fulfilling the prudential regulations”
Regulations (Copy of risk management procedures attached)

(a) Transparency

(b) Corporate Governance

(c) Risk Management

(d) ESRM Guidelines

(e) Others, if any

5

6

Contact Details of Relevant Personnel
Annex-C

Name of the Bank/ FI

Name of the Important Mailing Address Electronic Communication
SI.

Address Address City Post Code

Officers Phone Number Fax Number Cell phone no Email
Line 1 Line 1

1.

2.

3.

OPERATIONS MANUAL

FOR

Refinancing to CMSMEs under Covid-19 Emergency and
Crisis Response Facility Project funded by AIIB

PROJECT IMPLEMENTATION UNIT (PIU)

SME AND SPECIAL PROGRAMMES DEPARTMENT

BANGLADESH BANK

GOVERNMENT OF THE PEOPLE'S
REPUBLIC OF BANGLADESH

Contents

1. Introduction	10
2. Project Introduction	11
3. Terms and Conditions	16
4. Participating Financial Institution (PFI)	18
5. Sub-loan / Sub-borrower	20
6. Refinancing Loan	24
7. Debt Servicing, Rescheduling and Event of Default	28
8. Environmental and Social	31
9. Procurement	34
10. Fund Management	34
11. Monitoring	40
12. Reporting	45
13. Promotion of the Project	46
Annex 1: Requirement for Modification of Policy Guidelines	48
Annex 2: Refinance Scheme Process Flow Diagram.....	49
Annex 3: Brief Terms and Conditions of Sub-loan and Refinancing Loan	51
Annex 4: Participation Agreement between BB and PFI	52
Annex 5: Eligibility Criteria for PFIs	59
Annex 6: Eligibility Criteria for Sub-loans and Sub-borrowers	60
Annex 7: Form A-1 - Refinance Loan Application Form	64
Annex 8: Refinance Application Checklist.....	66
Annex 9: Accreditation Assessment Form	67
Annex 10: Financial Statements	68
Annex 11: E&S Monitoring Checklist	69
Annex 12: Outline of Annual Environmental and Social Monitoring Report	71
Annex 13: Interim Un-audited Financial Report	73
Annex 15: Statement of Expenditure Form for PFI	82

Abbreviations

AIIB Asian Infrastructure Investment Bank
BB Bangladesh Bank
CMSME Cottage, Micro, Small and Medium-Sized Enterprise
COVID-19 Coronavirus Disease 2019
DA Designated Account
E&S Environment and Social
ESEL Environmental and Social Exclusion List
ESP Environmental and Social Policy
ESRM Environmental and Social Risk Management
FI Financial Institution
FID Financial Institutions Division, Ministry of Finance

FD Finance Division, Ministry of Finance
 GOB Government of Bangladesh
 L/A Loan Agreement
 MOF Ministry of Finance
 MOI Ministry of Industries
 MSME Micro, Small and Medium-Sized Enterprises
 NBF Non-Bank Financial Institution
 OM Operations Manual
 PD Project Director
 PFI Participating Financial Institution
 PIU Project Implementation Unit
 PSC Project Steering Committee
 P/R Progress Report
 RFA Revolving Fund Account
 SC Steering Committee
 SLA Subsidiary Loan Agreement
 SME Small and Medium-sized Enterprise
 SMESPD SME & Special Programmes Department, Bangladesh Bank
 BDT Bangladesh Taka
 USD United States Dollars
 ETC Etcetera

10

1. Introduction

1.1. Objective of the Project

COVID-19 has had major impact on the business operation and financial health of the Cottage, Micro, Small and Medium Sized Enterprises (CMSMEs) in Bangladesh. CMSMEs are essential for overall economic development of a country contributing around 20 -25% of the GDP and are an important source of economic growth and employment. Yet this group is hard hit by the pandemic and often struggles to access bank loans. Based on this recognition, the Government of Bangladesh (GOB) announced BDT200 billion incentive package for the CMSME sector where banks and non -bank financial institutions (NBFIs) are providing working capital loans using their own fund to CMSME s. Necessary guidelines have been issued by Bangladesh Bank(SMESPD Circular no. 1 dated 13 April 2020).

Bangladesh Bank (BB) further formed a revolving refinance scheme amounting BDT100 billion under SMESPD Circular-2 dated 26 April 2020 (Refinancing Scheme). The aim is to provide up to 50% of refinancing loan to banks and NBFIs against their disbursed working capital loans to CMSMEs.

Asian Infrastructure Investment Bank (AIIB)has agreed to provide a loan of USD300 million to the People's Republic of Bangladesh(the Borrower) under its COVID -19 Recovery Facility to support the Refinancing Scheme to the CMSME sector (the Project).Under the Project, AIIB will lend to the government a sovereign backed loan. The Loan Agreement (L/A) for the Project was signed between AIIB and the GOB on February 26, 2021 . The funds available under the Project would be passed on to the Participating Financial Institutions(PFIs) on a back-to-back basis, i.e., the PFIs would repay to the government on essentially the same loan at the end of 1 year expiry of refinance.

1.2. Purpose of Operations Manual

The Operations Manual (OM) presented here is specifically for the use of the Project Implementation Unit (PIU) and for the PFIs, OM is intended to facilitate PIU and PFIs to thoroughly understand policies and the mechanism of the Project, to process the AIIB loan and to realize successful implementation of the Project. Necessary amendments may be made at any time based on the changes in economic situation or laws.

Any change in the OM, which would materially change the structure and/or nature of the

scheme, shall be made by the PIU with the approval of competent authorities as listed in Annex 1 and with concurrence of AIIB.

11

2. Project Introduction

2.1. Scheme of the Project

The Project objective is to support credit expansion and reduce liquidity constraints brought on by the COVID-19 pandemic to CMSMEs in Bangladesh. AIIB provides the loan funds in USD to the GOB represented by its Ministry of Finance (MOF). GOB shall authorize BB and Financial Division of the Ministry of Finance (MOF-FD) to implement the Project. The MOF-FD shall be the Executing Agency of the Project. AIIB funds provided are exchanged to Bangladesh Taka (BDT) for refinancing to PFIs (Refinancing Loan or RL) for their working capital loans to CMSMEs (Sub-loan). In practice, BB will act as an Implementing Entity responsible for the administration of the Project on behalf of MOF-FD and make RL to PFIs. The amount of the Loan of USD 300 million is earmarked for AIIB to the Government of Bangladesh. At least 70 percent of the loan fund must be allocated to CMSMEs and no more than 30 percent to medium enterprises. Total allocation for the manufacturing and service sectors must be at least 65 percent and allocation for the trading sector must not be more than 35 percent. The maximum amount of RL to State-Owned Banks should not be more than 10%.

2.2. Management Structure of the Project

Figure 1. Management Structure

12

1) Steering Committee (SC)

For the smooth implementation of the Project, the Steering Committee will be established at ministry level and makes decisions on policy issues relevant to the implementation and management of the Project.

The Project Steering Committee (PSC) shall be headed by the Secretary of ERD (Finance Division), and comprise members from the Project Implementing Entity, ERD (Finance Division, Financial Institutions Division, and Planning Division), Planning Commission and Ministry of Planning (Implementations Monitoring & Evaluation Division). Representatives of AIIB may be called as an observer by special invitation when required.

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

- A. review, consider and approval of major policy changes of OM;
- B. supervision of the Project;
- C. the Eligibility Criteria and their periodical review;
- D. the establishment and amendment of terms and conditions of RLs and Sub-loans;
- E. the feedbacks of lessons learnt and reflection into policy formulation; and
- F. any other issues related to smooth operation of the Project.

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

2) Ministry of Finance (MOF)/ the Executing Agency

The MOF-FD will play the role of Executing Agency on behalf of the GOB who bears the prime responsibility of receiving and repaying AIIB loans from and to AIIB and supervision of the Project. The GOB shall bear the credit risk of PFIs as well as the exchange rate risk.

3) Bangladesh Bank (BB)/ the Implementing Entity

Bangladesh Bank, in particular its SME & Special Programmes Department (SMESPD), will act as an Implementing Entity responsible for the administration of the Project with aim to achieve the project objective under the Subsidiary Loan Agreement (SL/A) concluded between MOF-FD and BB prior to the effectiveness of the Loan Agreement.

4) Project Implementation Unit (PIU)

The Project Implementation Unit (PIU) will be established at SME and Special Programmes Department (SMESPD) of BB. It will be headed by a full-time General Manager (Project Director) nominated by BB's Governor, a Deputy General Manager (Deputy Project Director), full-time other key persons and the adequate number of support staff members who will

13

specifically handle all relevant tasks related to the Project. BB may assign appropriate level staff members in the PIU as they think fit. The structure of PIU is shown in the figure below.

Figure 2: Organogram of Project Implementation Unit

Source: Bangladesh Bank

The functions of the PIU will be performed by each section as shown below:

Project Director

■ The Project Director (PD) will be primarily responsible for the Project implementation with the cooperation of Finance Division and Economic Relations Division (ERD) and, shall mobilize any directorate of BB necessary for the smooth implementation of the Project through appropriate authority of BB.

■ The PD will be the approval authority for all RLs under the Project. PD will also be the approval authority for payment of all expenses. PD may refer cases to the Governor of BB by his/her own judgment during the approval process.

Refinance & Fund Management Section

■ due maintenance of the Designated Account, the Project Operating Account and the Revolving Fund Account established for the Project, and disbursements of RL funds to

14

PFI, 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

■ preparedisbursement projections, withdrawal application and request for initial disbursement and replenishment to AIB in accordance with AIB's requirements,

■ preparation of statements of the Project Accounts,

■ receive, review and approval of Refinancing Loan Applications from PFI,

■ 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.

Monitoring and Administration Section

■ coordination with BB's other departments for general affairs,

■ provision of necessary administrative assistance for other sections of PIU,

■ conducting the accreditation of PFI, including annual review, against the eligibility criteria stated in the Project Agreement and the Operations Manual,

■ concluding a Participation Agreement with PFI,

■ oversee RLs and Sub-loans,

■ daily monitoring of the Project,

■ production of Quarterly Progress Reports (P/R), including On-going Sub-loan Summary Report, and Project Completion Report (PCR),

■ preparation of Current Repayment and Overdue Status Report,

■ ensuring that PFI, and, through PFI, that Sub-borrowers, adhere to the AIB's applicable fiduciary and environmental and social requirements and the Borrower's laws and regulations applicable to RLs and Sub-loans,

- carrying out project monitoring and evaluation in accordance with the Project Agreement and the OM, including monitoring the utilization and repayments of RLs and PFIs■
 - compliance with the terms of the Participation Agreements,
 - ensure a team shall be formed within the PIU including staff from the Project Implementation Entity■s Sustainable Finance Department to implement the ESRM Guidelines for the Project,
 - ensuring that the ESRM Guidelines comply with the Borrower■s laws and regulations, the AIIB■s ESF and the ESS,
 - ensuring that each ESMS complies with the Borrower■s laws and regulations and the ESRM Guidelines,
 - implementing the ESRM Guidelines,
 - ensuring that all reports are provided to the Bank on time and to specification.
- 2.3. Governing Agreements for the Project

15

The Project will be implemented based on the following agreements:

A. Loan Agreement (L/A) between AIIB and GOB, which 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 AIIB.

B. Project Agreement (PR/A) on the Project between AIIB and GOB, which stipulates various issues on the implementation of the Project, inter alia:

- 1) Implementation arrangements, and
- 2) Project monitoring, reporting and evaluation

The major contents of PR/A have been incorporated in the OM, however, it is recommended to refer to these documents from time to time to obtain deeper understanding of the scheme of the Project, including the background.

C. Subsidiary Loan Agreement (SL/A) between GOB and BB

1) The Subsidiary Loan Agreement officially authorizes BB as the Implementing Entity which has been fully effective since when the L/A is declared effective and will be valid until 29 February, 2024 or such other date as may be agreed between the Government of Bangladesh and BB.

D. Participation Agreement (P/A) between BB and PFI

1) Each accredited PFI will conclude a comprehensive Participation Agreement with BB, which is a basic agreement to be applied to all the RLs. The form of the Participation Agreement is shown as Annex4. The Participation Agreement provides for what is required to PFI under the Project, inter alia:

- Terms and Conditions of the RLs and PFIs;
- Procedures for RL and its Repayment; and
- Monitoring and Reporting to PIU.

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

- To comply with all the rules and regulations applicable to banks and financial institutions in Bangladesh;
- To comply with the eligibility criteria at all times unless the PFI is at the remedial stage and is so allowed by BB;

16

- To comply with all the terms and conditions of sub-loans as well as in this OM;
- To conduct its operations and affairs, with due diligence and efficiency and in

accordance with sound administrative, financial, economic and managerial standards;

Detailed terms and conditions of PFIs are outlined in Annex 4.

E. A Sub-loan Agreement (S/A) shall be signed between a PFI and a Sub -borrower that stipulates the Terms and Conditions of the sub -loan. All the terms and conditions as per BB circulars, PFI agreement and PFI's credit policy pertaining the sub -borrower will be included in this Sub-loan Agreement.

3. Terms and Conditions

3.1. Terms and Conditions of Sub-loan

The PFI shall assume all credit risks associated with extending of Sub -loans under the Project. The Sub-loan is the term used to express the loan to be provided by the PFI to the Sub -borrower which includes the credit funded by the refinancing fund from PIU. Sub -loans should be made in accordance with all instructions set out in SMESPD Circular No.01; dated April 13th, 2020, SMESPD Circular No.02; dated April 26th, 2020 or as amended from time to time and other relevant circulars/circular letters/policies of BB and this OM.

CMSMEs in different sectors and of different natures (such as gender) will be equally treated with regard to the terms and conditions of loans so far as they satisfy pre-set eligibility criteria. The basic terms and conditions of the Sub -loan scheme under the Project are outlined in Annex 3.

The Sub-loan Agreement shall also include, but not limited to, the following obligations of the Sub-borrower:

- A. use the proceeds of sub-loans exclusively for the working capital;
- B. carry out the activity being financed with due diligence and efficiency and following sound technical, economic, financial, managerial, fiduciary, integrity and environmental and social standards and practices;
- C. not engage in any Prohibited Practice in relation to the sub -loan or other activity being financed, or authorize or permit anyone to do so on its behalf;
- D. notify the PFI of any violation of AIIB's Policy on Prohibited Practices 1 or if any international financial institution imposes any sanction on the sub-borrower;

1 Policy on Prohibited Practices - Operational Policies & Directives - AIIB

17

E. manage its operations and carry out the activity being financed following the Guideline on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh by BB.

More detailed provisions as required in the Sub-loan Agreement are outlined in Annex 6.

3.2. Terms and Conditions of RL

Basis terms and conditions of the RL are outlined in Annex 3. The principal and interest payments of RL shall be made in accordance with the schedule of amortization of each loan as prepared by PIU. These payments of interests and repayments of principal shall be realized by debiting them against the current account of the concerned PFI maintained with BB. Then, principals of RL shall be credited to Revolving Fund Account (RFA), and one -fourth(1/4) of interests on RL to Revenue Account of BB and three-fourth(3/4) to Revenue Account of MOF, respectively.

In such cases, no overdue of interest and principal payment is expected. However, the PFI may request BB, in advance, to make delay in debiting the PFI's account on valid ground like liquidity problem etc. In such cases, PFI should pay a penalty of 2% above the prevailing rate on the outstanding amount for the overdue period and to recover the full amount including interest/profit/penalty at one instance.

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

Detailed terms and conditions of the RL are outlined in the Participation Agreement in Annex 4.

3.3. Revision of Terms and Conditions

Any change in the terms and conditions of the RLs as well as the Sub -loan specified above, which would materially change the structure and/or nature of the scheme, shall be approved by

the Steering Committee and AIIB. 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

The Refinancing Method will be used for the disbursement of RLs. Under the Refinancing Method, the PFI makes disbursement of the Sub -loan prior to submitting its Request for Refinancing to PIU. The RLs can be extended only for Sub -loans that have been disbursed one (1) month prior to PFI's request of the respective refinancing.

18

4. Participating Financial Institution (PFI)

4.1. Accreditation Criteria of PFIs

Please refer to Annex 5 for the eligibility criteria of PFIs.

4.2. Revision of Eligibility Criteria

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

4.3. Accreditation of PFI

1) Accreditation Procedure

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

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

- A. Application from banks and financial institutions
 - B. Due diligence of banks and financial institutions by PIU, and
 - C. Monitoring and review of PFI compliance with accreditation criteria
- ##### 2) Application by Banks and Financial Institutions

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

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

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

3) Due Diligence of Banks and Financial Institutions by PIU

Selection will be made on the basis of the financial information consisting of the information provided in the Application by banks and financial institutions and CAMELS data. The PIU will

19

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 9 and Annex 10, respectively.

Those applicant banks evaluated as unsatisfactory level in any one of the criteria will automatically lose eligibility for PFI. The PIU may further discuss on unfavorable or adverse information of the applicant, if any, and make decision on whether the applicant be excluded from PFIs or not. The PIU is authorized to accredit PFIs among those which have been qualified in the assessment. The final decision of the PIU will be informed to the applicant together with

the evaluation made and report to Steering Committee.

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

4) PFI Review by AIIB

PIU will submit the list of all newly accredited PFIs to AIIB within 5 days of the end of month in which PFI is accredited. If AIIB believes that the PFIs is not fit to be accredited for any reason, AIIB will inform PIU. PIU will immediately remove the PFIs from the list of accredited PFIs and inform the PFI.

AIIB reserves the right to disallow disbursements from the Loan Facility to any PFI determined not to be complying with any of the above criteria unless and until the PFI can satisfy the criteria.

5) Monitoring and Annual Review of PFI Compliance with Accreditation Criteria

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

4.4. Entry of Exit of PFIs

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

20

4.5. Loss of Eligibility

Irrespective of the timing, whether at the time of review or else, PFIs that are found to be failing to meet the eligibility criteria will be required to submit remedial plans for examination by PIU.

If the submitted plans are deemed sufficient to endorse that the non-compliance is likely to be solved within a reasonable time limit, PIU may agree to allow those banks and financial institutions to maintain the PFI status conditioning the time limit. Otherwise, the PIU shall take actions to stop disbursing new RL until the PFI becomes fully eligible again.

5. Sub-loan / Sub-borrower

5.1. Pre-conditions for Sub-loan

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

5.2. Eligibility Criteria

1) Eligible Sub-borrower and Sub-loans

Please refer to Annex 6 for the eligibility criteria for Sub-loans and Sub-borrowers.

2) Revision of Eligibility Criteria

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

5.3. Approval of Sub-loan by PFI

1) Application for Sub-loan to be prepared by the Sub-borrower

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

borrower to PFI. The application shall contain, among others, the information required for the

21

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 Sub -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 Sub -borrower and uses the information submitted for transcription into Form A -1, Application for Refinancing Loan and Form A -2, Request for Disbursement of Refinancing Loan (Annex 7) for submission and application to PIU for the disbursement of RL.

2) Credit Appraisal of Sub-loan by PFI

The PFI conducts credit appraisal and verification of the compliance with the banking and non-bank financial institutions 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 Operations Manual that demonstrate the relevant terms and conditions to be satisfied by the Sub-loan/Sub-borrower.

3) 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

- The Sub -borrower fills up the Application for Sub -loan with accurate and sufficient information;

- The Sub -borrower shall provide CIB undertakings, the financial statements, other information, papers and documents required by the relationship officer in charge at the branch office;

- The relationship officer in charge at the branch shall evaluate the Sub -borrower's Application with due diligence, accomplish the relevant tasks and prepares the Credit Assessment Report;

- 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);

- ZCRO or HCRO informs the results of review to the branch office;

- 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;

- HOCR informs the result of review to ZCRO;

22

- HOCR and HOB supports the Credit Assessment Report and forward the recommendation for approval to Credit Committee;

- Credit Committee informs the decision as per the delegated authority to HOCR and HOB;

- Credit Committee forwards the Credit Assessment Report to Executive Committee/Board for approval within their respective authority; and

- Executive Committee/Board informs the decision to HOCR and HOB.

4) 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 Sub-borrower and the Sub-loan submitted to PIU

A. In filling the Application for Sub -loan, the Sub -borrower shall provide information required under the Project in addition to what are presented in the procedure described above for credit appraisal;

B. The relationship officer in charge at the branch shall evaluate the Sub -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

C. The Eligibility Assessment Report thus created by the relationship officer shall accompany the Credit Assessment Report through the layers of authority for final approval.

5) Compliance with the Eligibility Requirement and the Operations Manual

The PFI checks and verifies the contents of the Application for Sub -loan under the Project submitted by the Sub -borrower against the eligibility requirement and the Operations Manual. The result of the verification shall be reflected into the preparation of Form No. A-1, Application for Refinancing 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 Refinancing Loan. The PFI is recommended to prepare a check list based on which the Eligibility Assessment Report should be created for verifying the Sub -loan's compliance with the Eligibility Requirement and the Operations Manual and to accompany the Credit Assessment Report to be submitted for credit approval to the competent officer of the institution.

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

23

under the Project. The PFI under NBFIL license similarly has to comply with the Prudential Regulation for NBFIL. The procedures of the PFI established for appraising the normal credits can be adopted for the purpose of the compliance with the Banking Regulations.

7) Collateral

A special attention is invited to the issue of collateral conditions for the Sub -loan. Under the Project, the requirement of collateral for the Sub-loan rests upon the determination to be made by the PFI in accordance with the PFI's own policy and guidelines and in compliance with the rules and regulations prevailing in Bangladesh. For consideration of the collateral issue, reference can be made to the SME Credit Policy of BB. The BB's policy articulates the practical approach for dealing with the collateral requirement for SME lending. It is to be noted that the prevailing regulation allows the PFI under the scheduled banks to render the collateral free loans up to Tk 1.0 million to small enterprises in general and to Tk 2.5 million for women entrepreneurs. The BB's Policy further gives the examples of tools complementing the collateral required in such means as; personal guarantee, group guarantee, social guarantee, hypothecation of products and machineries, group security, social security, etc.

8) 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.

9) 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 RL and in Form A -2, Request for Disbursement of RL . 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 Sub -borrower. The contents of the Sub -loan Agreement shall contain those requirements described in Section 3.1. The sequential flow of work for the credit approval and disbursement at the PFIs can be referred to in Annex 2 – Refinance Program Work Flow Process.

10) Disbursement of Sub-loan

24

Upon signing the loan contract , the PFI makes disbursement of the Sub -loan to the account designated by the Sub -borrower after completion of the PFI's appraisal process and signing of the loan contract but prior to the disbursement of RL against delivery of title document covenanted.

6. Refinancing Loan

6.1. Preconditions for Taking Refinancing Loans

Upon receiving the Application for RL from the PFI, PIU checks its record to confirm that the PFI duly satisfies the pre -conditions for requesting the Sub -loan to be financed by the Project.

The pre-conditions include that

A. The PFI has been duly accredited and appointed in accordance with the procedures established by the Project; .

B. The PFI has not failed to make debt servicing without any reason that are deemed justifiable by PIU and has no debt outstanding in arrear at the time of requesting PIU for RL; and

C. The PFI is compliant with the existing policy of Bangladesh Bank including the ratio to be maintained between cottage, micro and small, and medium enterprises, and the ratio to be maintained between manufacturing and services, and trading sectors.

The sequential activities work for approving and disbursing the RL can be referred to in Annex 2 – Refinance Program Work Flow Process.

6.2. Preparation of Application for Refinancing Loan by PFI

The PFI, after disbursing the Sub -loans, prepares and submits to PIU Form A-1, Application for Refinancing Loan and Form A -2, Request for Disbursement of RL. The PFI submits Form A -1 and Form A -2 together. The PFI is allowed to submit the Application for R L once a month within 10 th of next month after the month of its loan disbursement, along with necessary documents set out in the Checklist for Refinance Application (Annex 8) required by BB. The PFI ensures that the information contained in the Application for Refinancing Loan is true and correct on the Sub-borrower and the Sub-loan.

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

A. Applicant of the Sub-loan,

B. Summary of the Sub-loan,

C. Terms and Conditions of the Sub-loan,

D. Compliance with the Eligibility Requirement under the Project,

E. Terms and Conditions of the RL, and

F. Related Request being made for RL under the Project.

25

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

A. Request for Disbursement of the RL,

B. Specifics of Partial Disbursements if applicable, and

C. Account to be credited.

In the Application for RL, the PFI certifies that the Sub -loan and Sub - borrower is compliant with AIIB's Environmental and Social Policy (ESP) including the Environmental and Social Standards (ESSs) 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.

A Demand Promissory (DP) Note needs to be submitted by the PFI at each instance of taking RL to ensure repayment (principal as well as accrued interest) against sanctioned amount. That DP Note shall be treated as current security to BB to cover the following:

- A. Total receivable amount at present or later on; and
- B. All expenses, charges and costs (if any) payable under relevant rules of this program.

6.3. Examination of the Application for Refinancing Loan by PIU

Upon receipt of the Application for Refinancing Loan, PIU examines the contents described in the Application and confirms that the descriptions are in compliance with terms and conditions of RL, eligibility criteria, and in accordance with instructions set out in SMESPD Circulars No. 2, which are summarized to include but not limited to the following areas and items;

- A. Eligibility of Sub-borrowers,
- B. Eligibility of Sub-loans,
- C. Eligible business sector,
- D. Eligible purpose and usage of funds,
- E. Terms and conditions of the Sub -loan appraised (the ratio of financing, amount, interest, maturity, etc.)
- F. Size of Sub-loan,
- G. Rate of interest,
- H. Repayment term with grace period,
- I. Securities (collateral),
- J. Financing structure, and
- K. Social and environmental consideration.

For each and every Form A -1, Application for RL submitted, PIU first assigns one each unique number as PIU's Sub -borrower ID Number and PIU's RL Number. The Sub -borrower ID Number is structured as the abbreviated code of the PFI + the branch code + the PFI's borrower code and PIU's RL Number is as the abbreviated code of the PFI + sequential number of RL for the PFI + contract year of RL.

26

At PIU the Forms A -1, Application for RL and A -2, Request for Disbursement of RL shall be received at its Monitoring and Administration 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 Administration and Appraisal Section of PIU]

- A. Receiving the Application for Refinancing Loan and Request for Disbursement of RL,
- B. Assigning PIU's number to each Application,
- C. Entering the Application into the RL Control Book,
- D. Examining the compliance with the eligibility criteria,
- E. Submitting the result of examination to the appropriate authority through the Project Director,
- F. Obtaining approval of the appropriate authority on the RL and disbursement of the funds,
- G. Entering the approval date into the RL Control Book,
- H. Preparing the Notices of Results to PFIs,
- I. Preparing the letter instruction to Accounts and Budgeting Department for fund transfer by the Desk Officer,
- J. Presenting the letter instruction by the Officer in charge to the Project Director for approval,
- K. Ensuring the deposit of Demand Promissory Note duly signed by PFI at PIU,
- L. Delivering the letter instruction to Accounts and Budgeting Department, and
- M. Entering the disbursement date and amount into the RL Control Book.

Upon confirming the compliance with the eligibility requirement and the terms and conditions of Sub-loan, PIU shall notify the PFI the result of its examination by sending the Notice of Disbursement of RL (Form B -2). In the case of non -compliance, PIU shall notify the PFI the result of its examination by sending Form B -1.2, Notice of Non -compliance of the Application for RL. The period for issuing such Notice should not exceed ten (10) business days from the date of receiving the PFI's Application for RL with all valid documents to the date of sending the Notice.

6.4. Disbursement of Refinancing Loan

The Project uses Refinancing Method as stated in Section 3.4. Financing Method.

Upon confirming the compliance with the eligibility requirement, PIU releases the funds for RL to the account designated by the PFI as soon as possible. PIU notifies the completion of disbursement of RL to the PFI by sending Form B-2, Notice of Disbursement.

27

The PFI, receiving the funds in disbursement of RL, acknowledges its receipt of disbursed funds to PIU by sending Form A-3, Receipt of Disbursed Funds under RL.

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

A. Confirmation of the voucher for the credit entry of the disbursed funds to the PFI's account shall be obtained from the Accounts and Budgeting Department,

B. Receiving from the PFI the copy of the Sub -borrower's receipt of the funds disbursed under Sub-loan addressed to the PFI, being accompanied to the Form A -2, Request for Disbursement of RL,

C. Entry to be made at PIU of the date, amount and other particulars of RL disbursement to the RL control book (prospectively equipped in the computerized management system).

6.5. Amendment of Application for Refinancing Loan

For the PFI who receives the negative answer by Form B -1.2, Notice of Non -Compliance of the Application for RL, PIU shall not release the funds until the time when the Application for RL is amended in using Form A -5, Request for Amendment of the Terms and Conditions of RL and Sub-loan and the Request becomes fully complying with the terms and conditions of the Project. Upon examining the Request for Amendment of the Terms and Conditions of Sub -loan, PIU notifies the PFI its result by sending Form B -3, Notice of Acceptance/Non -Acceptance of the Request for Amendment. Upon sending the affirmative notice, PIU releases the funds for RL to the account designated by the PFI.

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

6.6. Suspension of Disbursement under the Project

In case where the RL and/or the Sub -loan is not deemed in conformity with the eligibility requirements and terms and conditions established for the RL and Sub -loan under the Project, including but not limited to the eligibility of the Sub -borrower, use of funds, and the eligibility criteria for the PFI, PIU and/or the PFI shall be disallowed and/or suspended to disburse the RL and/or the Sub -loan. If there are any ineligible expenditure arising from such case, such should be returned to the Designated Account.

28

7. Debt Servicing, Rescheduling and Event of Default

7.1. Notice of Due Dates on Refinancing Loan

The PFI is obliged to make payment of principal and interest on the due dates to the account

designated by PIU irrespective of its receipt of the Notice of Due Dates from PIU and its collection of the principal and interest from the Sub-borrower.

The collection of the RLs shall be handled by the Treasury and Recovery Section of PIU. The due dates of the RLs 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 RL, 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 t o the Accounts and Budgeting Department for vigilance. The sequential activities and flow of funds for debt servicing of the RL can be referred to the attached Chart C, Workflow for Debt Servicing

7.2. Payment of Interest and Principal on Refinancing Loan

BB will realize the amount refinanced to a PFI along with applicable interest/profit/charges on maturity or completion of 1 year, whichever is earlier, from the date of refinance by debiting their current accounts maintained with the Motijheel Office of BB. The PFI is obliged to make payment of principal and interest on the due dates to the account of PIU irrespective of its collection of the principal and interest from the Sub-borrower

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

[Process Flow at Treasury and Recovery Section of PIU]

- A. Monitoring the maturities of the RLs,
- B. Sending the Notice of Due Dates to PFI and its copy or summary sheet to the Accounts and Budgeting Department,
- C. Preparing the letter instruction to Accounts and Budgeting Department for disposal of received funds to the effect that the principal portion shall be credited to Revolving Fund Account, 1/ 4th of the interest received to BB's Revenue Account and the remaining portion of the interest to MOF's account,

29

D. Approval and sending of the letter instruction for disposal by the Project Director to the Accounts and Budgeting Department,

E. Receiving the notice from the Accounts and Budgeting Department for in -coming transfer of funds,

F. Confirming the accuracy of the fund transfer,

G. Report to the Project Director for recovery,

H. Preparing the Form B-6, Receipt of Payment of Principal and Interest,

I. Approval of the receipt of funds by the Project Director,

J. Sending the Form B-6, Receipt of Payment of Principal and Interest to the PFI, and

K. Entering the recovery date and amount to the RL Control Book.

7.3. Prepayment of Principal of Sub-loan

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

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

7.4. Prepayment of Principal of Refinancing Loan

Upon receiving Form A -6, Report of Prepayment of Sub -loan, PIU confirms the reason and

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

At PIU, the Form A -6, Report of Prepayment of Sub -loan shall be received at its Treasury and Recovery Section. The prepayment shall be handled by the Officer in charge at the section in

30

similar steps as the scheduled payment. Instead of the advance information on the up -coming repayment, the section shall inform the Accounts and Budgeting Department for the notified prepayment whenever informed by the PFI. The steps to be taken after the receipt of the incoming transfer shall be the same as in case of the scheduled repayment

If BB finds that a PFI does not adjust or take necessary steps to adjust any early adjusted fund by its beneficiary, BB preserves the right to impose penalty at the rate of 2% (two percent) above than the prevailing rate on such amount for the unadjusted period and to recover the full amount including interest/profit/penalty at one instance.

7.5. Rescheduling of Sub-loan

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

7.6. Rescheduling of Refinancing Loan

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

At PIU the Forms A -8, Request for Rescheduling of RL shall be received at its 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 other s, the following sequential steps of actions

[Process Flow at Administration and Appraisal Section of PIU]

- A. Receiving the Request for Rescheduling from the PFI,
- B. Entering the Request into the RL 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 RL Control Book,
- G. Preparing the Notices to PFIs, and

31

H. Entering the rescheduled maturity and installment schedule into the RL Control Book. After confirming the eligibility compliance and regulatory clearance, and the reschedule is approved by the competent authority, PIU sends Form B-11, Approval for Rescheduling of RL to PFI

7.7. Non-payment on Due Dates

Should the PFI find any of its Sub -loans failing to make payment on due date, the PFI notifies

PIU the non -payment of the Sub -loan by sending Form A -7, Notice of Non -payment of Sub -loan. The Notice shall be received at Treasury and Recovery Section of PIU. The non -payment shall be reported immediately to the appropriate authority through the Project Director. The PFI is obliged to make payment of principal and/or interest of RLs irrespective of its receipt of payment from the Sub-borrower on the Sub -loan. The PFI starts the collection process when the Sub-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. The process shall accompany, among others, the following sequential steps of actions [Process Flow at Treasury and Recovery Section of PIU]

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

8. Environmental and Social

8.1. BB's ESRM

BB has established "Guidelines on Environmental & Social Risk Management (ESRM Guidelines) for Banks and Financial Institutions in Bangladesh" (ESRM). AIIB has assessed the ESRM and found it to be consistent with AIIB's Environmental and Social Policy. The ESRM will be applicable for this Project.

8.2. ESMS Procedures

32

Each PFI will, as a condition of eligibility for financing under the AIIB loan, be required to adopt an environmental and social management system (ESMS) in accordance with the ESRM Guidelines of BB. The figure below outlines the components of the ESMS that each PFI is required to follow.

Figure 3. Components of an ESMS

Source: Guidelines on Environmental & Social Risk Management for Banks and Financial Institutions in Bangladesh, BB

8.3. Evaluating E&S Risk of Sub-loan

The PFIs will follow the provisions specified for MSMEs in the ESRM and undertake the role of screening, selection, due diligence (DD), implementation and management of compliance of the sub-borrowers and sub-loans.

The PFIs will carry out screening of sub -loans and assign Environmental and Social (E&S) risk category as required in the ESRM Guidelines. Certain activities of a sub -loan are not eligible for financing under the Project. These activities include (1) any Category A and high -risk Category B activities in accordance with AIIB's ESP, (2) activities listed in AIIB's Environmental and Social Exclusion List (ESEL) and, (3) activities listed in the Exclusion List of ESRM Guidelines of BB. These high-risk Category B sub -loans to be excluded from the AIIB financing are those transactions that may potentially result in: (i) land acquisition or involuntary resettlement, (ii) risk of adverse impacts on Indigenous Peoples and/or vulnerable groups, (iii) significant risks to or impacts on the environment, community health and safety, biodiversity, and cultural resources, and/or (iv) significant occupational health and safety risks.

For SMEs involving medium risk activities as defined in the ESRM of BB and for the medium enterprise sector, the PFI is required to carry out ES due diligence (ESDD). A time -bound ES

33

Action Plan (ESAP) will also be prepared and relevant covenants will be included in the loan documentation. For the small enterprise sector with low ES risk activities, BB's Exclusion List presented in the ESRM will be applied, in addition to AIIB's ESEL.

A team will be formed in PIU where staff from the Sustainable Finance Department (SFD) of BB will be included to implement the ESRM Guidelines for this project through requiring appropriate screening, approval and monitoring procedures for PFIs and sub-loans.

8.4. Monitoring E&S Risk and Reporting

Sub-borrowers should conduct self-monitoring or monitoring by independent third parties and/or regulatory authorities. During the monitoring process, sub-borrowers will self-report E&S performance to respective PFI. The reporting frequency should be tailored to each individual transaction and agreed in the legal agreement.

Each PFI shall carry out monitoring of sub-borrowers' E&S performance in accordance with the ESRM Guidelines and PFIs' own ESMS. If non-compliance with the E&S clauses stipulated in the legal agreement is identified, PFI staff should follow up with the sub-borrower to resolve these in a reasonable timeframe. Depending upon the complexity of the E&S issues associated with a sub-borrower's operations, PFI staff should require a new corrective action plan and/or periodic reports on E&S performance throughout the duration of the transaction. PFIs will document their findings in the monitoring checklist as shown in Annex 11. PFIs will report to PIU on E&S risk categorization and E&S DD at the portfolio level and submit the monitoring checklists on a sample basis (no less than 20%) to PIU quarterly.

At PIU, staff will review and validate the monitoring checklists submitted by the PFI on a sample basis (no less than 20%). If there is non-compliance with the E&S requirements of the Project, PIU should follow up with the PFI who will in turn liaise with the sub-borrower to resolve the issues in a reasonable timeframe. PIU will submit Annual Environmental and Social Annual Report (AESR) to AIIB. The suggested outline of the AESR is presented in Annex 12.

8.5. Project-level Grievance Redress Mechanism

A Project-level Grievance Redress Mechanism will be established at the PIU and PFI levels based on the existing GRMs. At the PIU level, BB addresses concerns/complaints/grievances associated with this Project through its Financial Integrity and Customer Services Department (FICSD). FICSD is the existing grievance channel in BB which will be used in this project. Aggrieved people can have access to the FICSD through Hotline number 16236, written application of complain, e-mail etc. Cases are resolved within reasonable time. Communities and individuals who believe that they are adversely affected as a result of sub-loans may submit complaints to the existing GRM channels in BB. In addition, SME & Special Programmes

34

Department has separate Problem Solution Center, particularly deals with complains of MSME entrepreneurs.

PFIs have their own GRMs in accordance with respect ESMS. The PFIs will ensure that information about accessing available GRMs is made available to the stakeholders of the sub-loans.

PFI will include a summary of grievance log associated with this Project in the Quarterly report to PIU. The PIU will also report the GRM at both levels to AIIB in the AESR.

8.6. Independent Accountability Mechanism (IAM)

AIIB's Policy on the Project-Affected Peoples Mechanism (PPM) applies to this project. The PPM has been established by AIIB to provide an opportunity for an independent and impartial review of submissions from project-affected people who believe they have been or are likely to be adversely affected by AIIB's failure to implement its ESP in situations when their concerns cannot be addressed satisfactorily through the project-level GRM or the processes of AIIB Management. Information on AIIB's PPM is available at: <https://www.aiib.org/en/policies-strategies/operational-policies/policy-on-the-project-affected-mechanism.html>

9. Procurement

All goods, works and services to be financed out of the proceeds of a sub -loan must be procured in compliance with AIIB's Procurement Policy and Interim Operational Directive on Procurement Instructions for Recipients, as amended from time to time. Procurement appraisal. The PFI must review the Sub-borrower's plan for procurement of goods, works and services to be financed out of the proceeds of each sub -loan and satisfy itself that such plan is in compliance with established private sector or market practices.

10. Fund Management

10.1. Accounting Policies and Procedures

The accounting policies and procedures of the Project will be governed by the existing Project Accounting Manual of the MOF. All project -related transactions from all sources (AIIB and GOB) will be accounted for separately on cash basis following double -entry bookkeeping principles.

10.2. Flow of Funds

Figure 4. Flow of Funds

35

1) Initial Disbursement

The funds received at the Designated Account from AIIB shall be transferred by PIU under authorization of MOF to Project Operating Account in Bangladesh Taka from which the disbursement of RL to the PFI shall be made. For making disbursement of RL to PFIs, PIU debits the Project Operating Account and credit the account designated by the PFI.

The detailed procedures required to be taken for receiving the funds from AIIB are prescribed in the Disbursement Letter. AIIB shall, upon receipt of the request for disbursement and the pipeline of RLs in the prescribed format from PIU, make the initial disbursement in accordance with the Disbursement Letter.

In order to apply for advance funds, whether it is initial or subsequent disbursements PIU shall prepare and submit a withdrawal application (WA) to AIIB via mail. The first application may be shared via email for the Bank team to confirm that the application is correctly completed.

Thereafter, the signed WA needs to be posted to AIIB HQ for processing. The WA shall be signed by the PD. For this purpose the name, e -mail ID and signature of the PD will be

36

authorized by the ERD of MOF. The WA will be prepared based on the sub loans already disbursed by the bank to the sub-borrower.

The funds will be transferred from the DA to the operating account by the Transfer Advice signed by the PD on the basis of authorization letter of FD of MOF.

2) Recovery from PFIs

In recovery of RL on due dates, PIU shall inform the PFI of the forthcoming due dates and inform that the recovery shall be made by debiting the PFI's current account maintained at BB for the amount coming due on the specified due dates. Form B -5, Notice of Due Dates of Principal and/or Interest shall be sent by PIU to the PFI prior to the due date.

On due dates notified, Accounts and Budgeting Department of BB shall debit to the account of PFI for the amount instructed by PIU. Out of the proceeds collected from the PFI's account, the Accounts and Budgeting Department shall credit the principal portion of the proceeds to the Revolving Fund Account whereas the interest portion is split into two parts, out of which 1/4th shall be credited to BB's Revenue Account and 3/4th to MOF's account.

3) Subsequent Disbursement

In order to refinance loans to the PFIs from the revolving fund account, the revolving fund account must accumulate to 20% of the total prior disbursement made by AIIB. The disbursement of the second and the succeeding generations of RLs shall be made by debiting the Revolving Fund Account and crediting the PFI's account.

Subsequent disbursements will be made to replenish the Designated Account by AIIB upon receipt of the request for replenishment accompanied by the following documents;

- Statement of Expenditure for eligible expenditures, and
- Supporting documents such as the copies of the receipts issued by the PFI and by the Sub-borrower evidencing each payment and its usage when the advance amount up to 80% has been disbursed to the PFIs.

Per the disbursement letter, the PIU will submit quarterly withdrawal applications and summary of expenditures to record expenditures with AIIB. This will be done whether there is a request for additional drawdown of funds from AIIB. The minimum and maximum single disbursement amount will be as specified in the Disbursement Letter.

10.3. Bank Accounts

The Project is required to open and maintain the Designated Account, the Project Operating Account and the Revolving Fund Account with BB. The officials authorized by the concerned

37

authority will be the signatories to maintain the respective bank accounts and approve the payments.

The funds will be transferred from the Designated Account to Project Operating Account by transfer advice signed by the PD. The funds from the Project Operating Account and the Revolving Fund Account will be transferred based on the vouchers signed by the officers of the PIU assigned by the PD and each fund will be transferred with the approval of the PD.

1) Designated Account (in USD)

Purpose: to receive funds from AIIB

A "Designated Account" (DA) denominated in USD shall be opened and maintained with Forex Reserve & Treasury Management Department (FRTMD) of BB, in the name of the Project on behalf of GOB to receive disbursement from AIIB in accordance with the Disbursement Letter. The DA will have a variable ceiling that is the funds disbursed will be based on a six months cash forecast. However, the PIU, will prepare and submit quarterly withdrawal applications and summary of expenditures, to enable the recording of the quarters expenditure in AIIB's system.

2) Project Operating Account (in BDT)

Purpose: for initial disbursement of RLs to PFIs

A "Project Operating Account" denominated in local currency shall be opened and maintained with Accounts and Budgeting Department (A&BD) of BB, in the name of the Project on behalf of GOB. Funds will be transferred from the Designated Account to the Operating Account before being spent for disbursement of RLs to the PFIs. Advances received from AIIB to the Designated Account will be transferred to the Project Operating Account in multiple tranches based on statement of loans paid to the sub-borrower by the PFIs. All foreign exchange gain/loss will be borne by the GOB.

3) Revolving Fund Account (in BDT)

Purpose: to receive repayment from PFIs and disburse subsequent RLs to PFIs

A "Revolving Fund Account" shall be opened and maintained with FRTMD of BB in the name of the Project on behalf of GOB to which the principal portion of repayment from PFIs shall be credited for subsequent application for funding the second and succeeding generations of Refinancing Loans. For disbursing the second and succeeding RLs to PFIs, PIU should utilize the funds accumulated in the Revolving Fund Account for disbursement until the revolving account reaches 20% of total prior disbursement made by AIIB.

10.4. Fund Management

38

1) Authority and Payment Responsibility

Government's existing rules and procedures outlined in the Project Accounting Manual with respect to authority and payment responsibility as well as prevailing delegation of financial

powers will be applicable for the Project.

The designated Project Director and in his/her absence an alternative official will be the authorized for operating the Project's accounts.

The operation of the Designated Account will be governed by the directives of Finance Division of MOF. The operation of Project Operating Account will be governed by applicable rules and procedures. However, policy for transferring the balance from the Revolving Fund Account to government treasury will be formulated by PSC of the Project or Finance Division of MOF.

The Designated Account, Project Operating Account, so maintained for the fund management will be closed as per rules with the approval of competent authority at the end of the Project. On the other hand, the Revolving Fund Account will be closed with the approval of competent authority after all loans are fully repaid by PFIs and repayments are transferred to Government Treasury.

For closing the Designated Account, Project Operating Account and the Revolving Fund Account, all Letter or advices will be signed by the PD.

2) Loan Management and Accounting System

BB's existing loan management and accounting systems with a clear segregation of duties, proper review and authorization of transactions will be followed. PIU will follow the International Financial Reporting Standards (IFRS) for accounting and preparation of the financial statements of the project.

3) Internal Control

The Designated Account Statement will be prepared by the Forex Reserve and Treasury Management Department (FRTMD) of Bangladesh Bank and Project Operating Account Statement and the Revolving Fund Account Statement will be prepared by the Accounts and Budgeting Department of Bangladesh Bank. All accounts will be reconciled by the officials of PIU quarterly and at the time when WA is submitted to AIIB.

10.5. Audit

The Internal Audit Department of BB may carry out audit of the project as per policy of the BB and the internal audit report should be provided to AIIB on request.

39

Foreign Aided Project Audit Directorate (FAPAD) will conduct external audit of the Project within six (6) months after the end of a fiscal year. Audit will be performed on the Project's financial statements including (1) Sources and Uses of Funds (Annex 13), (2) Statements of Designated Account, Project Operating Account, and Revolving Fund Account (Annex 13), and (3) Statement of Expenditure (Annex 15). PIU will keep in touch with FAPAD to resolve audit observations/objections upon receipt of the external audit report. Project Director will be responsible for audit follow-up and for taking remedial actions.

10.6. Project Financial Report

1) Interim Un-audited Financial Report (IUFR)

PIU shall prepare IUFR and submit it to AIIB semi-annually no later than 45 days after the end of semiannual period, i.e., by June and December of each fiscal year until the completion of the Project. The IUFR also includes (1) Statements of Designated Account, Project Operating Account, and Revolving Fund Account, (2) Sources and Uses of Funds Statement, and (3) Statement of Expenditure (Annex 15). The status of settlement of audit observations should be submitted along with IUFR. The formats of IUFR which are pre-agreed with AIIB, and are shown in Annex 13 in the OM. The IUFR will also be supported by account statements, account reconciliations and snapshot of the account balance per general ledger, for each project bank account as at the end of the reporting period.

The Designated Account Statement will be prepared by the Forex Reserve and Treasury Management Department (FRTMD) of Bangladesh Bank and Project Operating Account Statement and the Revolving Fund Account Statement will be prepared by the Accounts and Budgeting Department of Bangladesh Bank. Sources and Uses of Funds Statement will be prepared by the PIU officials assigned by the PD which will be reviewed and approved by the PD.

2) Annual Audit Report

PIU shall prepare the Project's annual financial statements in the format shown in Annex 14 after the end of a fiscal year and submit it to FAPAD for external audit within three months after the end of each fiscal year. FAPAD will conduct the audit according to their audit Terms of Reference (TOR). After conducting the audit FAPAD will discuss with PIU officials about any conflict or misunderstanding, and resolve any conflict or misunderstanding between FAPAD and PIU. The issues which cannot be resolved by the discussion between FAPAD and PIU will be treated as discrepancy and those issues will be included in the audit report or management letter of FAPAD. The Audit Report along with the management response on the management letter issued by the auditor should be submitted to AIIB annually within nine (9) months after the end of each fiscal year, i.e., by September of each fiscal year until the completion of the Project. The financial statements include (1) Sources and Uses of Funds (Annex 14), (2) Statements of

40

Designated Account, Project Operating Account, and Revolving Fund Account (Annex 14), and (3) Statement of Expenditure (Annex 15). The financial statements will also include notes to the financial statements disclosing the detailed assumptions made in the preparation of the financial statements.

At minimal, the Auditors should provide an opinion on the (i) financial statements, (ii) eligibility of expenditures incurred and reported to the Bank (through SOE and IUFRs), and (iii) compliance with the loan agreement, and relevant laws and regulations and issue management letter for any internal control deficiency identified during the audit. PIU shall make available to FAPAD project document, financing agreement, Disbursement Letter, project agreement, operational manual, participation agreement, statement of loan paid to the sub-borrowers by the PFIs, bank statements, interim unaudited financial reports and statement of expenses submitted to the AIIB during the fiscal year and all supporting documents required for the audit to the auditor.

11. 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.

11.1. Monitoring by PFI

The PFI is responsible for monitoring the progress of the Project at the level of Sub-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-loan monitored, the PFI shall report the findings from monitoring activities to PIU immediately and indicated the steps take or to be taken to remedy the issues. In addition, the PFI shall report to PIU regularly the results of its monitoring by creating the reports of On-going Sub-loan Summary Report and Status of Current Repayment and Overdue.

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

The PFI's monitoring should focus on the following aspects of the Sub-loan

41

Progress of Individual Sub-loan

A. Proper usage of the Sub-loan proceeds,

- B. Orderly performance in operation,
- C. Sufficiency in capability of manufacturing, marketing, operation,
- D. Development of market conditions,
- E. Sales turnover,
- F. Cash flow,
- G. Number and change in employment, and
- H. Social and Environmental Protection.

Financial Conditions of Sub-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.

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.

11.2. Measurement of Monitoring Indicators

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

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

Result Monitoring Indicators

42

A. Percentage of nonperforming loans in the PFIs portfolio refinanced through AIIB facility

- B. Number of eligible sub-borrowers receiving financing
- C. Percentage of loan value in cottage, micro and small enterprises
- D. Percentage of loan value in medium enterprises
- E. Number of sub -borrowers with women owners or with one or more women in executive positions
- F. Number of PFIs
- G. Number of jobs created/retained by sub-borrowers (disaggregated by gender)

11.3. Monitoring of Social and Environmental Impact

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

The PFI is held responsible for monitoring the social and environmental impact of the Sub -loan. The result of the monitoring by the PFI shall be reported to PIU by the periodical as well as the ad-hoc report. The periodical reporting shall be made by submitting the Form C -3.2, PFI Report on On-going Sub-project Summary within which the columns are assigned for reporting of the

Environmental Category of the Sub -loan based on BB■s and AIIB ■s Environmental and Social Guidelines and the adverse impact, if any, that has been observed

11.4. Monitoring by PIU

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

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

- A. 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,
- B. To aggregate the collected data and grasp the total picture on the progress of the Project,
- C. To analyze the compiled data,

43

D. To conduct field survey/inspection of the PFIs and the Sub -borrowers, should it be found necessary by PIU,

E. To grasp and assess the performance of the PFIs individually,

F. To identify weakness and/or problems,

G. To develop the measures for solution and/or improvement,

H. To prepare the Quarterly Progress Report to be submitted to AIIB quarterly, and

I. To give guidance to the PFIs.

11.5. Periodical Reporting –Quarterly Progress Report

PIU shall report the findings from monitoring activities in sending AIIB and Steering Committee the Quarterly Progress Report. For compilation of the Report, PIU shall require the PFI to submit periodically the pertinent data and information in the forms of Form C -3.2, PFI Report on On -going Sub -project Summary, Form C -5.2, PFI Report on Current Repayment and Overdue Status, Form C-4.2, PFI Report on Monitoring Indicators and other ones that would be reasonably requested

A. Project Description (Relevance)

■ Project Objective,

■ Necessity and Priority of the Project, and

■ Rationale of the Project Design.

B. Project Implementation (Efficiency)

■ Project Scope,

■ Implementation Schedule,

■ Project Cost,

■ Organization for Implementation,

■ Precautions (Measures to be adopted/ points which require special attention),
and

■ Photographs of Output of the Project.

C. Benefits Derived from the Project (Effectiveness)

■ Operational and Physical Condition of each Facility Developed/ Supplied by the Project,

■ Precautions (Measures to be adopted/ points which require special attention),

■ Environmental and Social Impacts,

■ Qualitative and Quantitative Data of Monitoring Indicators,

■ Monitoring Plan for the Indicators, and

■ Achievement of the Project Objective.

D. Operation and Maintenance (Sustainability)

■ O&M and Management, and

■ O&M Cost and Budget.

E. Evaluation

- Borrower/Executing Agency Performance,
- Overall Evaluation, and
- Lessons Learnt and Recommendations.

11.6. Monitoring by Steering Committee

Steering Committee discusses policy issues relevant to the implementation and management of the Project, including but not limited to the following

- A. Approval of the Operations Manual,
- B. Approval of the Accreditation Criteria of PFIs,
- C. Review of the performance of the Project,
- D. Review of the PFIs' performance, and
- E. Discussion of issues that may arise requiring the Committee's judgment, including the frequency of disbursement of RL.

The approval and decision above made shall be sent to AIIB 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.

11.7. Inspection

For the purpose of monitoring of the Project, AIIB and/or PIU may initiate visits for inspection to the Sub-borrowers. It will involve physical visits to the Sub-borrower and therefore, the PFI and the Sub-borrower shall be required to accept such and to extend cooperation required by the Inspecting Institution and its Inspector. No standard procedure is established for executing the inspection. The following sites and parties may be visited for such inspection and relevant records and documents may be examined:

- A. PIU,
- B. PFIs, including their branch offices, and
- C. Sub-borrowers' office

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

11.8. AIIB's Monitoring Visit

Subject to travel disruptions caused by the COVID -19 pandemic, AIIB will carry out monitoring visits, physically or virtually, to BB and selected PFIs biannually to oversee the implementation of the project. No technical assistance is envisaged

12. Reporting

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

Figure 5: Reports to AIIB and Due Dates

No. Requested Report Frequency Due Date

Monthly

1 List of newly accredited PFIs

PIU shall submit a list of PFIs newly accredited by PIU during the month, until the completion of the project

Monthly 5 days from the last working

day of month
Quarterly
2 On-going Sub-Loan Summary Report

Quarterly (as of
the end of
March, June,
September,
December)
No later than 15 days after
the end of each calendar
quarter until after the
Completion of the Project
3 Quarterly Progress Report Same as above Same as above
4 Up-to-date list of the eligible PFIs Same as above Same as above
Semi-annually
5 Semi-annual Unaudited Interim
Financial Report (IFR)

The reports include Statement of
Designated Account, Project Operating
Account, Revolving Fund Account and
Statement of Expenditure
Semi-annually
(as of the end
of June,
December)
No later than 45 days after
the end of each semiannual
period until after the
Completion of the Project
Annually
6 Current Repayment and Over-due
Status Report

Annually (as of
the end of
December)
No later than nine months
after the end of each fiscal
year until after the
Completion of the Project
7 PFI Performance Review

in the format in which PIU reports to the
Steering Committee
Same as above Same as above

46

8 Audit Report

Audit shall be made on the Statements of
Designated Account, Project Operating
Account, Revolving Fund Account and the

Statements of Expenditure by FAPAD

Same as above Same as above

9 Annual Report of the Project

Including the balance sheet, profit and loss statement

Same as above Same as above

10 Audited Financial Statement of PFIs Annually No later than 120 days from the end of Financial Year

Only Once

12 Project Completion Report

Once Six months after the

Completion of the Project

13. Promotion of the Project

13.1. Publicity Promotion

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

13.2. Advisory Services

In order to make the Project better accessible and easily available, the PFIs are recommended to establish or assign a particular unit of their branch networks to provide advisory services to the prospective SME clients concerning on how an SME can make use of the funds provided by the Project. The advisory services that the PFIs are expected to render to the Sub-borrowers and potential beneficiaries of the Project include but not limited to the following

A. Guidance on the basic terms and conditions of financing under the Project,

B. Guidance on all the requirement for the Sub-borrower to follow at one time upon delivery of application form,

C. Guidance for filling up the application form, and

47

D. Sufficient time allowed for preparation, question and answer.

13.3. Capacity Building of PFIs' Staff

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

48

Annex 1: Requirement for Modification of Policy Guidelines

Guideline Authority for
significant modification
Reporting
Requirement
Steering Committee

■ composition MOF-BFID -

■ member - MOF-BFID

■ functions MOF-BFID -

Project Implementation Unit ■ organogram MOF-BFID ■ functions MOF-BFID Subsidiary Loan Agreement ■ covenants - P

■ terms and conditions Steering

Committee/AIIB -

■ eligibility criteria Steering Committee/

AIIB -

■ other covenants Steering Committee Sub-loan Agreement ■ obligations Steering Committee Participating Financial Institut

■ accreditation criteria Steering

Committee/AIIB -

■ list of accredited PFIs PIU/ AIIB Steering Committee

49

Annex 2: Refinance Scheme Process Flow Diagram

50

Source: Bangladesh Bank

Note: SAP AC = SAP Access Control, BB = Bangladesh Bank, CBS = Core Banking System, FI = financial institution, GL = General ledger

51

Annex 3: Brief Terms and Conditions of Sub-loan and Refinancing Loan

Summary Terms and Conditions of Sub-loan

Lender: The PFIs

Borrower: Clients of PFIs (CMSMEs)

(See "Eligibility Criteria for Sub-borrowers")

Currency: Bangladesh Taka

Terms and Conditions

Term: 1 years (incl. grace up to 3 months)

Interest rate: 9% per annum, 4% of which will be paid by the client(s) and the rest 5% will be given by the government directly to the

Banks/NBFIs as subsidy

Repayment Schedule: To be determined by arrangement between PFI and the client in compliance with the rules and regulations prevailing in Bangladesh

Interest payment: To be determined by arrangement between PFI and the client in

compliance with the rules and regulations prevailing in Bangladesh
Prepayment: To be determined by arrangement between PFI and the client in
compliance with the rules and regulations prevailing in Bangladesh
Security: To be determined by arrangement between PFI and the client in
compliance with the rules and regulations prevailing in Bangladesh

Summary Terms and Conditions of Refinancing Loan

Lender BB

Borrower Eligible PFIs

Currency Bangladesh Taka

Terms & Conditions:

Term (grace): 1 years (incl. grace up to 3 months)

Interest rates: 4% per annum

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.

In case that a PFI fails to repay any installment of loan as per the repayment schedule, BB may realize the installment amount plus 2% interests.

Security PFIs will have to submit Demand Promissory (DP) Note against the refinance amount during each instance of availing refinance facility. This DP Note will be treated as ongoing security for BB's current and future receivable (with applicable charges & expenses on refinance) to that PFI for the refinanced fund.

52

Annex 4: Participation Agreement between BB and PFI

Participation Agreement between Bangladesh Bank and

Participation Agreement between Bangladesh Bank

And

----- Limited

This Agreement is signed on the ----- day of, -----, 2020 CE

Between

Bangladesh Bank, the Central Bank of Bangladesh, established under the Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972), having its head office at Motijheel Commercial Area, Dhaka-1000, Bangladesh (hereinafter called BB) which expression shall unless excluded by or repugnant to the context be deemed to mean and includes its successors -in-interest, legal representatives, administrators and assigns.

And

----- Limited, a ----- Bank of Bangladesh, incorporated under the Companies Act 1994 and governed by the Bank Companies Act, 1991/Financial Institutions Act, 1993 and carrying business under the BB's license no ----- dated , having its head office at -----, Bangladesh (hereinafter called the Participating Financial Institution or PFI) which expression shall unless

excluded by or repugn ant to the context be deemed to mean and includes its successors -in-interest, legal representatives, administrators and assigns.

PREAMBLE

Whereas,

a) Asian Infrastructure Investment Bank (AIIB) has provided a loan fund of USD 300 million to Government of Bangladesh (GOB) under COVID -19 Emergency and Crisis Response Facility Project (CECRFP)(NO PD000415-BGD) for supporting credit expansion and reduce liquidity constraints brought on by the COVID-19 pandemic to CMSMEs in Bangladesh on a sound macroeconomic basis.

b) Bangladesh Bank has been entrusted with the responsibility to administer the AIIB loan under CECRFP on behalf of GOB under the Subsidiary Loan Agreementdated ----- --, 202-- and any further amendments thereafter;

c) Through the issued Circular, interested banks and non -bank financial institutions (PFIs) are requested to enter into a participation agreement with BB to avail refinance facility for up to 50% (fifty percent) of the sanctioned amount of working capital disbursement by a PFI as per approved manner directed by SMESPD, BB (as per SMESPD Circular No. -----2 Dated

53

-----, 202--) to support credit expansion and reduce liquidity constraints brought on by the COVID-19 pandemic to CMSMEs in Bangladesh.

d) The PFI fulfills the eligibility criteria as set forth in Annexure 07 of project document and SMESPD Circular No. -----/2020 dated , 2020 and is willing to avail refinance facility from the above mentioned fund on terms and conditions described in the said Circular.

e) ----- Bank/NBFI Limited, a ----- Bank/NBFI licensed and approved by BB, has agreed to act as the Participating Financial Institution (PFI) to receive the AIIB fund from BB and also to payback the released fund to BB, complying with all relevant circulars/circular letters of BB, with accrued interest as per pre -determined terms and conditions as mutually agreed upon by BB and -----Bank/NBFI Limited.

f) It is required to enter into an agreement between BB and the Participating Financial Institution (PFI) (hereinafter the ----- Bank/NBFI Limited) for making necessary transactions (debits and credits), from and to, between the BB and the ----- Bank/NBFI Limited, against the fund approved by BB to ----- Bank/NBFI Limited.

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

Section-01: Definition

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

a) „Bank■ means any banking company operating in Bangladesh having license from BB.

b) „BB■ means „Bangladesh Bank■.

c) „BDT■ means „Bangladeshi Taka■.

d) „Beneficiary■ means any enterprise to which the Participating Bank/ Non -bank Financial Institution has provided or will provide working capital facility under this Refinance Scheme.

e) „CMSME■ means „Cottage, Micro, Small and Medium Enterprise■ as per BB policy.

f) „NBFI■ means any Non -bank financial institution engaged in financing and leasing business having license from BB.

g) „Fund■ means „Amount of the refinance facility provided under this scheme or this refinance

scheme as a whole by BB, unless explicitly referred to anything else.

- h) „PFI means participating bank or Non-bank financial institution under this Agreement.
- i) „SMESPD means „SME and Special Programmes Department of BB.
- j) “AIIB-PIU” means a unit established at SMESPD of BB to specifically handle all relevant tasks related to the AIIB fund under CECRFP.

Section-02: Objectives

The objectives of the agreement are as follows:

- a) To ensure that the PFI declares its commitment to the objective of the fund provided by AIIB and introduced by BB vide SMESPD Circular No. -----; dated -----, 202--- or as amended from time to time and to this end support COVID -19 affected MSMEs through working capital financing with due diligence and efficiency and in conformity with appropriate administrative, financial and banking practice.

54

- b) To ensure that the PFI declares its commitment to comply with all circulars/circular letters/policies of BB those govern the operation and objectivity of the fund.
- c) To receive the fund from BB as and when BB releases and transfers the same to the account of PFI and also, payback the released fund to BB including the accrued interest, as per pre-determined terms and conditions and pre-scheduled times as mutually agreed by both parties.

Section-03: Terms and Conditions for Refinance Facility

BB shall release fund in favor of PFI {upon submitting the required documents; loan application, Trade license, NID, Account statement etc. to BB) against the disbursed loan/investment under the following terms and conditions:

- i. The refinance facility shall be administered under the terms and conditions set forth in SMESPD Circular No. -----; dated -----, 20 ---- or as amended from time to time and other relevant circulars/circular letters/policies and Guidelines on Environmental & Social Risk Management for Banks and Financial Institutions of BB.
- ii. A PFI can only avail up to 50% (fifty percent) of its sanctioned loans/investments limits approved in accordance with SMESPD Circular No. -----; dated -----, 20---- and as approved by SMESPD at the time of application for refinance facility.
- iii. Refinancing 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 refinance of the PFIs in part or in full as considered appropriate by BB out of the available fund.
- iv. BB will have the discretion to refuse any claim for refinance made by PFIs, if it considers such claim is not in conformity to the objectives and terms and conditions of the refinance scheme set forth in SMESPD Circular No. -----; dated -----, 20--- or as amended from time to time.
- v. The duration of the fund will be for 03(three) years on revolving basis for working capital financing only.
- vi. Interest/profit rate for this fund is 4% (four percent) per annum, and it will be imposed/charged/accounted on quarterly basis. The PFI shall apply the interest rate maximum of 9% on the Sub-loans made to the Sub-borrowers (4% of which will be borne by the Sub-borrowers and 5% will be given by the government as subsidy to the PFIs as mentioned in SMESPD Circular no. 1 dated 13 April 2020).
- vii. PFI shall apply for the fund in prescribed format (as amended from time to time) to BB at the end of each month within 10 working days of the next month along with necessary documents or as required by BB from time to time.
- viii. Maximum tenure for working capital financing at beneficiary level is 1 year (excluding grace period).
- ix. Grace period up to 03(three) months may be provided to a PFI if it provides the same to

its beneficiary.

x. A beneficiary can take advantage of this fund for one period/tenure only through one of the PFIs, and only during the duration of this revolving facility on „First Come First Served“ basis. In case a beneficiary cannot avail this fund due to the PFI exceeds its limit, it can proceed through another PFI for such. Once a beneficiary receives any facility from this fund, he/she is no longer eligible for availing any facility from this fund again.

55

xi. A Demand Promissory (DP) Note to be submitted by the PFI at each instance of taking refinance to ensure repayment (principal as well as accrued interest) against sanctioned amount.

xii. That DP Note shall be treated as current security to BB to cover the following:

a. Total receivable amount at present or later on; and

b. All expenses, charges and costs (if any) payable under relevant rules of this program.

xiii. At any time, in spite of credit balance or partial repayment or more or less in the accounting or repatriation of any portion of the security, the Demand Promissory Note shall be treated as current security which is payable to BB.

xiv. Letter of Authority will be handed over to the PFI to maintain the General A/c with BB for debiting the repayment of installments of the refinance facility.

xv. BB will realize the amount refinanced to a PFI along with applicable interest/profit/charges on maturity or completion of 1 year, whichever is earlier, from the date of refinance by debiting their current accounts maintained with the Motijheel Office of BB.

xvi. If a PFI fails on a scheduled payment for any unacceptable cause, BB will preserve the right to exclude such Banks/NBFIs from this refinance facility.

xvii. If the PFI is found to have received refinance under the scheme on the basis of false or incorrect statement or information, or for any purpose other than implied in the agreement, BB will have the right to impose and recover penalty at a time at the rate of 2% (two percent) above than the prevailing rate on the refinanced amount for the entire refinanced period and can recover the full amount including interest/profit/penalty at one instance.

xviii. If BB cannot recover scheduled installments due to PFI's insufficient balance, it preserves the right to impose penalty at the rate of 2% (two percent) above than the prevailing rate on the installment amount for the overdue period and to recover the full amount including interest/profit/penalty at one instance.

xix. If BB finds that a PFI does not adjust or take necessary steps to adjust any early adjusted fund (in case of final settlement and closing the loan account) by its beneficiary, BB preserves the right to impose penalty at the rate of 2% (two percent) above than the prevailing rate on such amount for the unadjusted period and to recover the full amount including interest/profit/penalty at one instance.

xx. Necessary initiatives will be taken to recover the loans by the PFI at field level. But there will be no relationship, whatsoever, between the recoveries of disbursed amount by the PFI with repayment of principal and accrued interest to BB.

xxi. This Agreement in total or in part(s) thereof shall stay in force until BB notifies the PFI on the termination of granting refinance facilities. This notification shall be in writing at least 03(three) months before it becomes effective.

xxii. The PFI shall preserve all the documents under this working capital facility and refinance facilities availed as per SMESPD Circular No. -----; dated or as amended from time to time to ensure quick access to them for any necessity.

xxiii. BB can inspect the entire project financed by PFIs and ask to provide any related documents of the same before and after refinancing. PFIs should provide the required documents to BB as and when requested from time to time.

Section-04: Terms and Conditions for PFI

PFIs shall meet the following terms and conditions:

- i. The PFIs should ensure its approval of sub -loans complies with the eligibility criteria of sub-loan and sub -borrowers, and the terms and condition of sub -loans, as set out in Section 3.1 in the operations manual, as well as the provisions as per schedule s ection I.E.3 of the Project Agreement signed between AIIB and GOB.
- ii. To comply with all the rules and regulations applicable to banks and financial institutions in Bangladesh;
- iii. To comply with the eligibility criteria at all times unless the PFI is at the reme dial stage and is so allowed by BB;
- iv. To comply with all the terms and conditions of sub -loans as specified below as well as in the operations manual;
- v. To conduct its operations and affairs, with due diligence and efficiency and in accordance with sound administrative, financial, economic and managerial standards;
- vi. To supervise and monitor the proposed use of sub -loans to assure that the purpose of the project shall be accomplished;
- vii. To disclose or submit all information required by PIU, including, but not limit ed to, audited financial statements and reports required by PIU for the implementation and monitoring of the project;
- viii. To provide prompt notice, upon becoming aware, of any information it obtains regarding a violation of AIIB's Prohibited Practices Policy b y the PFI and the sub -borrower or any person acting on its behalf;
- ix. To allow PIU to suspend, terminate or withdraw loan when violations are observed;
- x. To enable PIU, BB or AIIB to inspect the PFI or any sub -borrowers and review any relevant records and documents maintained by the PFI, if PIU, BB or AIIB so requests;
- xi. To maintain a lending and investment policy conducive to the growth and development of small and medium -sized enterprise sector and maintain suitable procedures and an adequate number of suitably qualified staff to enable it effectively appraise the financial and environmental risk of sub -loan in accordance with sound lending and investment policy and in keeping with the principles, terms and conditions of existing policies of Bangladesh Bank, which are applicable for CMSME financing.
- xii. To provide detail of sub -loan disbursements in the agreed interval and submit reports within the agreed period to PIU as per prescribed formats, or as mentioned by the Bangladesh Bank from time to time for refinancing.
- xiii. To maintain separate monitoring units for this project.
- xiv. To maintain a financial management system and prepare financial statements (balance sheet, income statement and statement of sources and application of funds) in accordance with consistently applied Bangladesh accounting standards primarily based on International Financial Reporting Standards acceptable to the Project Implementing Entity, both in a manner adequate to reflect its operations, resources and expenditures under the Refinancing Loan; and
- xv. To have such financial statements audited by independent auditors, in accordance with consistently applied and internationally accepted auditing standards, and furnish the statements as so audited to the Project Implementing Entity not later than six (6) mo nths after the end of the PFI's fiscal year;
- xvi. To review beneficiary's plan for procurement of goods, works and services to be financed out of the proceeds of each sub-loan and satisfy itself that such plan is in compliance with established private sector or market practices.

The tenure of this program will be maximum 03(Three) years. The agreement shall remain in force until the program is completed and the entire disbursed fund is repaid to BB by the PFIs with the incurred interest as per the terms and conditions between the parties. However, if both or either party wants to close the program before the maturity, each party shall notify other party mentioning their intention to terminate the agreement. Such notification shall be made in writing at least 01(one) month before it becomes effective.

Section-06: Termination

This Agreement cannot be terminated by either party i.e. BB and/or PFI, except in the event of one or more of the followings:

- a) If the PFI ceases to carry on business or goes into liquidation (other than voluntary liquidation for the purpose of a bonafide solvent reconstruction or amalgamation the terms of which have been approved in advance by BB in writing) or is dissolved or struck off;
- b) If PFI is unable to pay its debts as they mature or suffers the appointment of a receiver, administrative receiver or administrator (or any similar official or process under the law of its domicile or place of incorporation) of the whole or any part of its assets or is the subject of any bankruptcy or insolvency proceedings;
- c) If any of the parties involved in the agreement doesn't feel comfort to carry out agreement. In such case, respective party must give a written notice to other party followed by an amicable settlement of the dues, if any.
- d) If any force majeure occurs and which lasts more than 30 working days, force majeure events shall include but not limited to acts of GOD, natural disasters, epidemics, riots, civil unrest, military, government or court intervention etc. Any or all acts or obligations hereunder shall remain suspended for a limited period in the event of any force majeure event occurring.

Section-07: Amendment or Change

- a) BB preserves the right of amalgamation, subtraction or refinement of the abovementioned conditions.
- b) In case of any changes occur in the Agreement between BB and PFI dated -----/-----/20...., these changes shall also be applicable for this agreement.
- c) In case of any ambiguity or confusion arising interpreting this Agreement, terms and conditions circulated vide SMESPD Circular No. -----; dated ----- or amended from time to time shall prevail.

This Agreement shall be prepared in two copies as original for both the parties. This agreement shall come into force and effect on the date of its signing by the two parties.

Witness: 1.

For and on behalf of
(Bangladesh Bank)

(Authorized Representative)

Witness: 1.

2.

For and on behalf of
(----- Limited)

(Managing Director)
----- Limited

59

Annex 5: Eligibility Criteria for PFIs

1. Eligible Participating Financial Institution

In order to be eligible for financing with proceeds of the project, a PFI must comply with the following criteria.

- A. An organization must be a bank or nonbank financial institution (NBFIs), duly licensed, approved and supervised by BB;
- B. It must have minimum three years experience of business operation in banking and/or finance with audited records (according to the requirements of the national financial regulatory authority);
- C. It should maintain BB declared rate of Capital Adequacy, Cash Reserve Ratio (CRR); Statutory Liquidity Ratio (SLR) [Note: these conditions are not applicable to state-owned banks];
- D. It should be profitable for two consecutive fiscal years including the latest one;
- E. It should have a maximum nonperforming loan of 10 percent [Note: this condition is not applicable to state-owned banks as stated];
- F. It should not be classified as the problem/sick bank and NBFIs or the early warning bank according to the CAMELS rating for BB's monitoring and supervision.
- G. It should take proper risk management measure and compliance with anti-money laundering related guidelines of the Bangladesh Financial Intelligence Unit (BFIU); the FI should not have substantially breached AML laws and regulations, or been subject to any significant findings or recommendation on improvements by the local regulatory authority over the past three years;
- H. It should have adequate organization, management, staff and other resources necessary for its efficient operation;
- I. It should have ES assessment procedures for screening, monitoring and reporting as acceptable to BB and AIIB;
- J. 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 eligible:
 - 1) Transparency (e.g., submission and/or disclosure of financial statements)
 - 2) Corporate Governance (e.g., control and management of business risk or corruption)
 - 3) Risk Management (e.g., capacity of risk assessment and adoption of adequate procedures)

Annex 6: Eligibility Criteria for Sub-loans and Sub-borrowers

1. Eligible Sub-loans

To be eligible for financing with proceeds of the facility, a sub -loan must meet the following requirements:

- A. The sub-loan must be made only to an eligible sub-borrower for an eligible purpose.
- B. The sub-loan must be denominated in the local currency.
- C. The maximum tenor of the sub -loan should be one year (excluding grace period), a maximum grace period of three months may be provided.

2. Eligible Sub-borrowers

To be eligible to receive a sub -loan, the intended sub -borrower of the sub -loan must meet the following requirements:

- A. The sub-borrower must be private sector enterprises in any type of the following:
 - 1) Limited liability company
 - 2) Proprietor; or
 - 3) Partnership
- B. The sub -borrower must be in the cottage, micro, small and medium enterprise (CMSME) sector, with criteria defined by Bangladesh Bank.
- C. The size of eligible sub -borrower shall be based on the definition of CMSMEs set by the 2016 Industrial Policy of the Government of Bangladesh which the BB has adopted. It is based on fixed assets (excluding land buildings) and/or the number of employees. CMSME is not a public limited company and complies with the following criteria:

Figure 4: Definition of Cottage, Micro, Small and Medium-sized Enterprises Adopted by the Bangladesh Bank

Enterprise size	Fixed asset excluding Land & Building	Employment	Annual Turnover (in USD thousands)
Cottage	<12	Max. 15	-
Manufacturing	12 but <90	16-30	-
Micro	Service <12	Max. 15	-
Trading	<12	Max. 15	240
Manufacturing	90 but <180	31-120	-
Small	Service 12 but <240	16-50	-
Trading	12 - 2.4	16-50	240 - 2400
Medium	Manufacturing 1800 – 6000	121-300	-
	- (Max 1000 for RMG/Labor-intensive industry)		
Service	240 – 3600	51-120	-

Source: SME & Special Programmes Department, Circular No. 02 dated Sep. 5, 2019.

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

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

D. The sub-borrower must be registered and operating primarily in the People's Republic of Bangladesh or has a business address in the People's Republic of Bangladesh.

E. The sub-borrower must not be a loan defaulter. If a loan of a CMSME is rescheduled for more than three times that CMSME entity will not be eligible for this facility.

F. A single enterprise/client can avail of funds from this package for a maximum of one year.

G. The maximum lending amounts to each sub-borrower is determined based on banks'/NBFIs' own decision. However, for existing clients the amount should not exceed the bank's/NBFI's previous year's sector-specific credit limit (new clients are not subject to the limit).

H. The sub-borrower has obtained all necessary local approvals, certifications and permits, and complies with all applicable national environmental, social, health and safety legislation and employment regulations and standards in effect.

I. The sub-borrower meets the PFI's requirements in, inter alia: creditworthiness, foreign - exchange position, integrity checks, ES requirements, and procurement practices.

J. The sub-borrower (a) demonstrates the compliance of all their activities with applicable ES regulatory requirements and commits to maintaining that status during the tenure of the sub-loan, (b) represents not having recently been administratively or judicially convicted of a material breach of environmental and social regulations, and (c) is not being reported in mainstream or social media as materially contravening good ES practices.

K. The sub-borrower must meet the PFI's requirements in capacities to, inter alia: ensure adequate and proper financial accounting of all incomes and expenditures, prepare financial statements relating to all its activities according to the prescribed policy of the Bangladesh Bank.

L. The sub-borrower must not be included on AIIB's debarment list when the sub-loan is made or the proceeds of the sub-loan are advanced to it.

M. Neither the sub-borrower nor any person acting on behalf of the sub-borrower has engaged in any Prohibited Practice under AIIB's Prohibited Practices Policy concerning the sub-loan or other activity being financed.

3. Eligible Purposes

A. The proceeds of a sub-loan may be used only for working capital requirements.

B. The proceeds of a sub-loan may not be used for any of the following purposes:

- 1) Any activity that appears on AIIB's Environmental and Social Exclusion List;
- 2) Any Category A and high-risk Category B activities, and activities listed in the Exclusion List of ESRM Guidelines of BB;

3) Any payment to a person or for any import of goods if such payment or import is prohibited by any resolution of the United Nations Security Council under Chapter VII of the United Nations Charter.

C. The proceeds will not be used to adjust existing loans or for balancing, modernization, rehabilitation and expansion of existing businesses or new initiatives.

4. General Guidelines for Environment and Social Appraisal

62

PFI's must screen and categorize each sub-loan, review and conduct due diligence on the environmental and social risks of each sub-loan and review and approve an environmental and social action plan incorporating the sub-borrower's environmental and social commitments concerning the sub-loan, all in a manner consistent with BB's Guidelines on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh.

For each sub-loan, PFI's appraisal of environmental and social risks must include:

- A. screening the sub-loan against AIIB's Environmental and Social Exclusion List;
- B. reviewing and categorizing the sub-loan according to its potential environmental and social risks and impacts;
- C. assessing compliance of the sub-loan with applicable environmental and social laws.

5. Sub-loan Agreement (Loan Contract between PFIs and sub-borrowers)

A. Documentation. If a sub-loan application is approved, the PFIs must enter into a loan agreement for the sub-loan which provides PFIs with rights adequate to protect their interests and those of AIIB, including the provisions set out in subparagraph (B) below.

B. Key provisions. Each sub-loan agreement must require the sub-borrower to:

- 1) use the proceeds of sub-loans exclusively for the working capital;
- 2) carry out the activity being financed with due diligence and efficiency and following sound technical, economic, financial, managerial, fiduciary, integrity and environmental and social standards and practices;
- 3) not engage in any Prohibited Practice in relation to the sub-loan or other activity being financed, or authorize or permit anyone to do so on its behalf;
- 4) notify the PFI of any violation of AIIB's Policy on Prohibited Practices or if any international financial institution imposes any sanction on the sub-borrower;
- 5) manage its operations and carry out the activity being financed following the Guideline on Environmental & Social Risk Management (ESRM) for Banks and Financial Institutions in Bangladesh by BB;
- 6) maintain a financial management system in a manner adequate to reflect the operations, resources and expenditures related to the activity being financed;
- 7) prepare financial statements following consistently applied accounting standards;
- 8) provide right to inspect, by itself or jointly with representatives of BB and/or the AIIB, if they shall so request, to inspect the activity being financed and any relevant records and documents;
- 9) provide right to obtain all such information as AIIB, BB or PFI may reasonably request relating to the foregoing administration, operations and functional conditions of the sub-borrower, and to the benefits to be derived from the activity being financed;
- 10) involve any remedies against the sub-borrower, including suspension, termination, or withdrawal of the sub-loan, which will be available to PFI by law, in event of failure of the sub-borrower to perform its obligation under contract with PFI;
- 11) provide right to take any legal action against the sub-borrower in case of default following the prevailing rules and regulations and prudential regulations/guidelines of BB.

63

12) procure all goods, works and services to be financed out of the proceeds of the sub-loan in compliance with established private sector or market practices.

13) suspend or terminate the right of the Sub-borrower to withdraw the Sub-loan, or declare to be immediately due and payable all or any part of the amount of the Sub-loan then outstanding, upon the Sub-borrower's failure to perform any of its obligations under the Sub-loan Agreement; and

14) provide, promptly as needed, the resources required for its operations

15) procure the goods, works and services to be financed out of the Sub-loan in accordance with the provisions of the Project Agreement

16) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Bank, the achievement of the Project's objectives

Annex7:Form A-1 - Refinance Loan Application Form

Refinance application sample for financing Bank/FI

Ref: _____ Date: _____

General Manager
SME & Special Programmes Department
Bangladesh Bank
Head Office, Dhaka

Dear Sir,

Application for refinancing under SMESPD Circular No: 02/2020

By drawing your kind attention to the titled subject I would like to inform that, for the month of --
--/20** (Name of the month) a total of BDT _____ (Amount) has been financed by our Bank/FI
against _____ (Number of loans/investments) loans/investments under SMESPD Circular No:
01/2020, dated: April 13, 2020. All the instructions mentioned in the said circular have been followed
properly during the disbursement of those loans/investments. Information of those loans /investments
(Annexure-Kha) has been submitted herewith for the purpose of receiving refinancing against the
loans/investments from the scheme mentioned in Circular No: 02/2020, dated: April 26, 2020.
Under these circumstances, you are requested to provide refinancing facility of BDT-----
- (In word -----) [mentioned in attached Annexure -Kha] to our bank from the refinancing scheme
mentioned in SMESPD Circular No: 02/2020.

Yours Faithfully,

(-----)
Managing Director/
Chief Executive Officer/
Bangladesh Operation Head for Foreign Banks

Phone No:

65

Form A-2

- 1) Name of the financing Bank/FI:
- 2) Allocated maximum limit (BDT) to this Bank/FI under SMESPD Circular No-01/2020:
- 3) Allocated maximum refinancing limit (BDT) to this Bank/FI under SMESPD Circular No-02/2020:
- 4) Total amount (BDT) refinanced so far by Bangladesh Bank to this Bank/FI under SMESPD Circular No-02/2020:
- 5) Amount repaid by this Bank/FI so far against received refinancing facility:
- 6) 50% of total disbursed loan/investment up-to **/2* month: _____ (Details in the table below)

Table
Serial
Name of
the
Borrowing
Enterprise
Trade
License

Number of
 the
 Borrowing
 Enterprise
 Information about
 report to Bangladesh
 Bank on
 disbursement of
 loan/investment
 Disbursement
 date of
 loan/investment
 Amount of
 disbursed
 loan/investment
 (BDT)
 Amount of
 imposed
 interest on
 disbursed
 loan/investment
 (BDT)
 Outstanding
 balance of
 disbursed
 loan/investment
 at the date of
 application
 (BDT)
 50% of
 disbursed
 loan/investment
 (BDT)
 Date Reference
 number
 (1) (2) (3) (4) (5) (6) (7) (8) (9) 10={ (9)*50%}

For any type of communication related the Annexure-Kha:

Responsible officer's name:

Designation:

Office phone:

Mobile phone:

E-mail:

66

Annex 8: Refinance Application Checklist

1. Documents Required To Submit With Application:

SL No. Name of the Item

1 Sanction Letter

2 Trade License of Beneficiary, Validity Date

3 Copy of National ID

4 Bank Loan account Statement

- 5 Bill of Entry, Invoice, L/C, Quotation
- 6 Rate of Interest
- 7 Monthly Installment

2. Other Evaluation Parameters:

SL

No.

Name of the Item

1. Signing of Participating Agreement
2. Enterprise Location
3. Fixed Asset
4. Disbursement Date
5. Application Date
6. Disbursed Amount
7. Non Performing Loan (NPL)
8. CRR
9. SLR
10. Capital Adequacy- CAR
11. Advance Deposit Ratio -ADR
12. Compliance The Policies Regarding "Single Borrower Exposure Limit"
13. Compliance The Policies Regarding Risk factors

67

Annex 9: Accreditation Assessment Form

(Name of Financial Institution:)

Fulfill the Criteria

Criterion Statement (Yes or No)

(1) Legality Financial Institution No. with BB:

(2) Operational Establishment Year:

(Copy of audited financial statements for the latest 3 years

Experiences

(> 3 years)
attached)

(3) Commitment to "Expansion of the Lending in SME Sector"
SME Lending (Copy of lending policies attached)

(4) Capital Adequacy

(a) Capital Taka million (as of)

in Net Worth

(b) Paid-up Capital Taka million (as of)

(c) Capital (as of)
Adequacy Ratio (evaluated by BB) (>10%)

(5) Profitability Net Profit Taka million (in Fiscal Year ending)

Taka million (in Fiscal Year ending)

(>0)

(6) Non-Performing NPL Ratio: (as of)

Loans (NPL)

(<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)

68

(d) Others, if any

Annex 10: Financial Statements

Attachment to Accreditation Assessment Form

Attachment I: Financial Statements
(Name of Financial Institution:)
(in Taka million)

2008 Shares Growth 2009 Shares Growth 2010 Shares Growth Avg. Growth
(%) (%) (%) (%) (%) (%) (%)

Balance Sheet

Cash and cash equiv. #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Short-term liquid assets #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Loans (net) #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Other assets #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Total assets #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Deposits from customers #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Due to banks & FIs #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Other liabilities #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Total liabilities #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Share capital #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Other reserves #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Retained earnings #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Total equity #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Total liab. & equity #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!

Income Statement

Interest income #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Non-int. income #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Total revenue #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Net interest income #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Net non-interest income #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Total net income
(=operating income) #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Operating expenses #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Contingent risk expense #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Net non-operating income #DIV/0! - #DIV/0! - #DIV/0! - -
Profit bfr tax #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Net profit #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!

Operational Ratios

Capital adequacy (>10%) #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Liquidity #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Single borrower exp. (<20%) #DIV/0! #DIV/0! #DIV/0! #DIV/0!

Forex exposure (<40%) #DIV/0! #DIV/0! #DIV/0! #DIV/0!
Loan to deposit #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0! #DIV/0!
NPL #DIV/0! #DIV/0! #DIV/0! #DIV/0!
RoE #DIV/0! #DIV/0! #DIV/0! #DIV/0!
RoA #DIV/0! #DIV/0! #DIV/0! #DIV/0!

69

Source:

Note: The fiscal year ends in

Annex 11: E&S Monitoring Checklist

No. Question /Issues to check Response

Project Summary Information

1 Reporting period covered by this supervision report

2 Specification of project stage (design, construction, operation or closure stage)

3 Key developments and any major changes in project location and design, if any

from the time of loan disbursement or from the last supervision period.

General Information

4 Is the mitigation plan ready or already being implemented?

If not, what are the mitigation plan?

EHS Management

5 If there was any incidence of accidents, spills, leakages, explosion etc. during the reporting period.

If yes, what was the scale of damage (e.g. if there was any fatality, monetary loss etc.)? What was the action taken in response to the incident?

6 If there were any recent fines or penalties issued by the regulatory body.

If yes, sub-borrower to please mention the nature of violation, amount of fine/penalty paid, action taken by the sub-borrower to address the issue to avoid any such fine/penalty in future.

7 If there was any health & safety incident.

If yes, what was the extent of injury – minor, major or fatal?

What was the action taken in response to the incident?

8 If there are any new E&S risks or adverse impacts observed due to sub-borrower's operation.

Sub-borrower to please mention the types of new E&S risks, the reason for such new E&S risks, mitigation measures undertaken by the sub-borrower to address the E&S risks.

Permits and Compliance Certificates

9 All the required permits, licenses and clearances in place.

Sub-borrower to please mention the issuance dates and duration of validity of all such permits, licenses and clearances.

Grievance Redressal

70

10 If there have been any recent complaints, grievance or protest received from local communities.

If yes, has the complaint reached out to Bangladesh Bank? Sub-borrower to please specify the nature of grievances; actions taken by the sub-borrower to resolve grievances and if there any outstanding issues and measures proposed by the sub-borrower to resolve them.

11 If there were concerns raised during the stakeholder consultations carried out by the sub-borrower during the reporting period.

If yes, what was the approach undertaken by the sub-borrower to address those concerns?

Other Information

12 Any other information pertaining to environmental matters, management approach, community, media or NGO coverage that need to be mentioned.

If there are any environment friendly initiatives, energy saving equipment etc. that might be relevant for the Bank/FI.

71

The report is prepared by:

Name of Officer _____

Position _____

Reporting period _____

A. E&S Portfolio Review of AIIB fund during the reporting period

Name of

PFI

Number of

Sub-loans

Approved

Number of

Sub-loans

under

Monitorin

g

Total Sub-

loan

amount

(000 US\$)

Number of Sub-
loans under each

E&S Risk

Category

Number of

Self

Reporting

by Sub-

borrowers

Number of

E&S Non-
complianc

es

Reported

by PFI

Number of

Resolved

E&S Non-
complianc

s Reported

by PFI

Number of

E&S Non-
compliances

in BB's

Sample

Review

Number of

Resolved E&S

Non-compliances

in BB's Sample

Review High Mediu

B. Training

Please provide information on capacity building activities/training conducted by BB during the reporting year

C. Grievance Redress Mechanism

Please provide summary of grievance log in the report period.

D. Additional information for the reporting period

1. Please provide details of any accidents/ litigation/complaints/regulatory notices and fines, their causes and corrective actions

2 Please state any difficulties related to the ESMS implementation by PFIs. What are the possible causes and actions being taken

73

Annex 13. Interim Un-audited Financial Report

Table 1. Sources and Uses of Funds

Name/Number of Project

Sources and Uses of Funds

For the Period Ending

Current Period Cumulative Forecast

RECEIPTS Actual Budgeted Variance Actual Budgeted Variance Next 6 Months

AIIB

Advance

Reimbursement

Interest

Total Receipts (A)

-

-

-

-

-

-

-

LESS EXPENDITURES

PFI 1

PFI 2

PFI 3

PFI 4

Total Expenditures (B)

-

-

-

-

-

-

-

RECEIPTS LESS EXPENDITURES

Net Change in Cash (A - B)

-

Foreign Exchange Adjustment

74

CASH BALANCES

Opening Cash Balances

Designated Account

-

Project Operating Account

-

Total Opening Balance

-

Closing Cash Balances

Designated Account

Project Operating Account

Total Closing Balance

-

75

Table 2. Designated Account Reconciliation

DESIGNATED ACCOUNT RECONCILIATION STATEMENT

LOAN NUMBER _____

ACCOUNT NUMBER _____ WITH (BANK) _____

AS ON.....

US\$

1 TOTAL ADVANCED BY AIIB

2 LESS: TOTAL AMOUNT DOCUMENTED BY AIIB

3 PRESENT OUTSTANDING AMOUNT ADVANCED TO THE DESIGNATED ACCOUNT (1 - 2)

-

4 BALANCE OF DESIGNATED ACCOUNT PER ATTACHED BANK RECONCILIATION AS OF DATE _____

5 BALANCE OF Project Operating ACCOUNT (BDT @ per USD) PER ATTACHED BANK RECONCILIATION AS OF DATE _____

6 PLUS: TOTAL AMOUNT TO BE DOCUMENTED IN THIS APPLICATION NO. _____

7 PLUS: TOTAL AMOUNT WITHDRAWN AND NOT YET DOCUMENTED

REASON: _____

8 PLUS: AMOUNTS CLAIMED IN PREVIOUS APPLICATIONS NOT YET CREDITED AT DATE OF BANK STATEMENTS
APPLICATION NO. Amount

WA # XXX XXXXX

WA # XX XXXXX

SUBTOTAL OF PREVIOUS APPLICATIONS NOT YET CREDITED

9 LESS: INTEREST EARNED

10 TOTAL ADVANCE ACCOUNTED FOR (NO. 4 THROUGH NO. 9)

-

11 DIFFERENCE (3 - 10)

-

11 EXPLANATION OF ANY DIFFERENCE SHOWN IN LINE 11:

76

DATE: _____ SIGNATURE: _____

TITLE: _____

Table 3. Project Operating Account

PROJECT BANK ACCOUNT RECONCILIATION STATEMENT

LOAN NUMBER _____

ACCOUNT NUMBER _____ WITH (BANK) _____

AS ON _____

S.N. DESCRIPTION AMOUNT IN BDT

1 AMOUNT TRANSFERRED FROM DESIGNATED ACCOUNT

2 ADD: INTEREST

3 TOTAL (1+2)

4 PAYMENT TO SUB-BORROWERS

5 CLOSING BALANCE (3-4)

6 CLOSING BALANCE AS PER BANK STATEMENT

7 DIFFERENCE (5-6)

8 EXPLANATION OF ANY DIFFERENCE SHOWN IN LINE 7:

DATE: _____ SIGNATURE: _____

TITLE: _____

77

Table 4. Revolving Fund Account
Revolving Fund Account (Principal Repayments)

Sub-loan

No.

Name of Sub-Borrower

or PFI

Borrowing

Date

Borrowing

Amount

Repayment

Date

Repayment

Amount

Repayment Amount is

Eligible for Financing

Other Sub-loans?

Accumulated

Amount Eligible for

Financing Other Sub-

loans

[Y/N - Specify reasons]

-
-
-
- -

RECEIPTS LESS EXPENDITURES
Net Change in Cash (A - B)

-
Foreign Exchange Adjustment

CASH BALANCES
Opening Cash Balances
Designated Account

-
79

Project Operating Account -
Total Opening Balance

-
Closing Cash Balances
Designated Account
Project Operating Account
Total Closing Balance

-
Table 2. Designated Account Reconciliation

DESIGNATED ACCOUNT RECONCILIATION STATEMENT

LOAN NUMBER _____
ACCOUNT NUMBER _____ WITH (BANK) _____
AS ON _____
US\$

1 TOTAL ADVANCED BY AIIB
2 LESS: TOTAL AMOUNT DOCUMENTED BY AIIB
3 PRESENT OUTSTANDING AMOUNT ADVANCED TO THE DESIGNATED ACCOUNT (1 - 2)

-
4 BALANCE OF DESIGNATED ACCOUNT PER ATTACHED BANK RECONCILIATION AS OF DATE _____
5 BALANCE OF PROJECT OPERATING ACCOUNT (BDT @ perUSD) PER ATTACHED BANK RECONCILIATION AS OF _____

6 PLUS: TOTAL AMOUNT TO BE DOCUMENTED IN THIS APPLICATION NO. _____
7 PLUS: TOTAL AMOUNT WITHDRAWN AND NOT YET DOCUMENTED
REASON: _____

8 PLUS: AMOUNTS CLAIMED IN PREVIOUS APPLICATIONS NOT YET CREDITED AT DATE OF BANK STATEMENTS
APPLICATION NO. AMOUNT
WA # XXX XXXX
WA # XXX XXXX

SUBTOTAL OF PREVIOUS APPLICATIONS NOT YET CREDITED
9 LESS: INTEREST EARNED
10 TOTAL ADVANCE ACCOUNTED FOR (NO. 4 THROUGH NO. 9) -
80

11 DIFFERENCE (3 - 10)

-

12 EXPLANATION OF ANY DIFFERENCE SHOWN IN LINE 11:

DATE: _____ SIGNATURE: _____

TITLE: _____

Table 3. Project Operating Account

PROJECT BANK ACCOUNT RECONCILIATION STATEMENT

LOAN NUMBER _____

ACCOUNT NUMBER _____ WITH (BANK) _____

AS ON _____

S.N. DESCRIPTION AMOUNT IN BT

1 AMOUNT TRANSFERRED FROM DESIGNATED ACCOUNT

2 ADD: INTEREST

3 TOTAL (1+2)

4 PAYMENT TO SUB-BORROWERS

5 CLOSING BALANCE (3-4)

6 CLOSING BALANCE AS PER BANK STATEMENT

7 DIFFERENCE (5-6)

8 EXPLANATION OF ANY DIFFERENCE SHOWN IN LINE 7:

DATE: _____ SIGNATURE: _____

TITLE: _____

81

Table 4. Revolving Fund Account

Revolving Fund Account (Principal Repayments)

As on _____

Sub-loan
 No.
 Name of Sub-Borrower or
 PFI
 Borrowing
 Date
 Borrowing
 Amount
 Repayment
 Date
 Repayment
 Amount
 Repayment Amount is
 Eligible for Financing Other
 Sub-loans?
 Accumulated Amount
 Eligible for Financing
 Other Sub-loans
 [Y/N - Specify reasons]

Note: In order for the Borrower to utilize the repayments made by the PFIs, total repayments from PFIs shall be more than USD aggregate.

82

Annex 15. Statement of Expenditure Form for PFI

Name/Number of Project
 Statement of Expenditure
 For the Period Ending _____

Address of
 PFI Currency and Amount Date of Payment Exchange Rate (%) Co-financier's Share
 (USD)
 (%) AIIB
 Share (USD)

(%) Borrower's Share
(USD)

Supporting documents for this SOE are retained at

1. A separate SOE form should be used for retroactive financing.
2. A separate SOE form should be used for each category.