



**Foreign Exchange Investment Department
(FDIPP-Implementation Unit)
Bangladesh Bank
Head Office
Dhaka.**

Website: www.bb.org.bd

FEID Circular No: 01

Date: 30 August, 2017

Chief Executive Officer/Managing Director
All Banks and Financial Institutions in Bangladesh

Dear Sirs,

**Two Step Loan Fund for refinance or pre finance under JICA funded
Foreign Direct Investment Promotion Project (FDIPP) BD-P86**

Government of the People's Republic of Bangladesh and Japan International Cooperation Agency (JICA) have signed a loan agreement to provide Bangladesh Bank a Two Step Loan fund with a view to accelerate economic development of Bangladesh by promoting private sector investment in Bangladesh and FDI from Japan through the implementation of development projects such as the development of Japanese Economic Zones and/or other industrial parks/ states under the Foreign Direct Investment Promotion Project (FDIPP) BD-P86 sponsored by Japan International Cooperation Agency (JICA) of Japan. The fund size is 7,033 million Japanese Yen for On Lending Loan. Under the Two Step Loan fund, Participating Financial Institutions (PFIs) will be provided with refinance or pre-finance for on lending loan to Japanese-invested enterprises and Bangladeshi enterprises in business relationship with Japanese enterprises supporting their operations mainly in manufacturing sector for short to long term duration. An Operating Guidelines (OG) comprising policies and procedures of this fund has been developed. The fund will be governed by this Operating Guidelines. [OG Link](#)

2. Banks and Financial Institutions interested in participating in this fund should apply on or before 25 September, 2017 as per the application format [annexed](#) with this circular.

3. Interested Banks and Financial Institutions are requested to go through the Operating Guidelines before applying. Application must include all required information and documents stated in the application format and in the Operating Guidelines.

Please acknowledge the receipt.

Yours Faithfully

(Md. Rezaul Islam)
General Manager
&
Project Director

Enclosure: As Stated.



GOVERNMENT OF PEOPLE'S REPUBLIC OF BANGLADESH
JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)



(BD-P 86)

**OPERATING GUIDELINES
FOR
TWO-STEP LOAN (TSL) COMPONENT OF
FOREIGN DIRECT INVESTMENT PROMOTION PROJECT
IN BANGLADESH**



**PROJECT IMPLEMENTATION UNIT
FOREIGN EXCHANGE INVESTMENT DEPARTMENT
BANGLADESH BANK**

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Chart F. Workflow for Monitoring

ABBREVIATIONS

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

DEFINITIONS

AD.....	Authorized Dealer
DTA.....	Domestic Tariff Area
EPA.....	Export Processing Area in the Economic Zones
End-borrower	a borrower of a Project sub-loan
EPZ.....	Export Processing Zone
EZ.....	Economic Zone
Financed Property	property obtained by using a Project sub-loan
Governing Committee	a committee established to oversee the overall project progress and effective coordination among various stakeholders with a view to promote FDI
OBU.....	Off-shore Banking Unit
On-Lending Loan	a loan for the fund of a sub-loan, lent by BB to a PFI
On-Lending Loan agreement	a contract of an on-lending loan between BB and PFIs
Participation agreement	a basic agreement of on-lending loans between BB and PFIs
Project	Foreign Direct Investment Promotion Project
Property value	a value of a property used for security
Reserve account	a bank account held by BB for reserve funds for incentives for punctual debt-service by borrower
Revolving fund account	a bank account held by BB for managing funds of the TSL Component of the Project
Sub-loan	a loan lent by a PFI to an end-borrower to finance an eligible sub-project
Sub-Project	an objective project of a TSL Component sub-loan

Introduction

Purpose of Operating Guidelines

It is widely recognized that the promotion of Foreign Direct Investment (herein after referred as “FDI”) is essential for overall economic development of a country. Based on this recognition, the Foreign Direct Investment Promotion Project (herein after referred as “the Project”) was formulated, comprising of three (3) components, one of which is Two-Step Loan Component (herein after referred as “the TSL Component”). The Loan Agreement (herein after referred as “L/A”) for the Project was signed between the Japan International Cooperation Agency (herein after referred as “JICA”) and the Government of Bangladesh (herein after referred as “GOB”) on December 13, 2015.

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

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

Modification of Operating Guidelines

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

PART: I. POLICY

1. Two-Step Loan (TSL) Component of the Project

1.1. Objective of the TSL Component

The TSL Component aims at FDI promotion through i) provision of satisfactory finance to Japanese-invested enterprises in all sectors and the Bangladeshi enterprises supporting their operations, and ii) provision of technical assistance to banks and financial institutions, thereby contributing to sound growth of the industry and economy in Bangladesh as well as the employment generation and poverty reduction on a sustainable basis, and the development of competitive finance market satisfactory to foreign investors. Given the strategic importance of the industry sector, financial assistance to foreign investors in the manufacturing sector is highly expected.

1.2. Scheme of the TSL Component

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

The amount of the Loan earmarked for TSL to FDI-related enterprises is JPY 7,033.00 million (BDT 4,571.45 million equivalent¹) in total.

1.3. Management Structure of the TSL Component

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

1.3.1. TSL Steering Committee (TSC)

For the smooth implementation of the TSL Component within the framework of the FDI promotion policy of GOB, the TSL Steering Committee (herein after referred as “TSC”) will be established at ministry level. The members of TSC will be composed as follows:

- ✓ Chairman:
 - (1) Secretary of MOF-FID (Executing Agency)
- ✓ Members:
 - (2) A suitable representative from BB (Implementing Agency),
 - (3) A suitable representative from Finance Division (FD) of MOF,
 - (4) A suitable representative from Economic Relations Division (ERD) of MOF,
 - (5) A suitable representative from Prime Minister Office (PMO),
 - (6) A suitable representative from Physical Infrastructure Division (PID) of Ministry of

¹ Taka amount is just an indicator for the scale of the Loan converted from Yen amount using the exchange rate as of February, 2016

- Planning ,
- (7) A suitable representative from Implementation Monitoring and Evaluation Division (IMED) of Ministry of Planning ,
 - (8) A suitable representative from Board of Investment(BOI),
 - (9) A suitable representative from a PFI nominated by TSC,
 - (10) A suitable representative from the Japan-Bangladesh Chamber of Commerce and Industry (JBCCI), and
 - (11) Officials with suitable designation and expertise to be co-opted for implementation of the TSL Component (Optional)
 - (12) A suitable representative from BEZA.
- ✓ Secretariat:
- (13) Project Director of Project Implementation Unit [FDIPP-Implementation Unit] in BB
- ✓ Observer:
- (14) Embassy of Japan
 - (15) JICA

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

- ✓ review, consider and approval of Operating Guidelines and of subsequent major policy changes;
- ✓ approval of the accreditation criteria and selection of PFIs;
- ✓ supervision of the TSL Component;
- ✓ important issues related to implementation of the TSL Component;
- ✓ policy formulation for promotion of FDI; and
- ✓ any other issue related to smooth operation of the TSL component of the project.

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

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

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

1.3.3. Bangladesh Bank (BB)/ the Implementing Agency

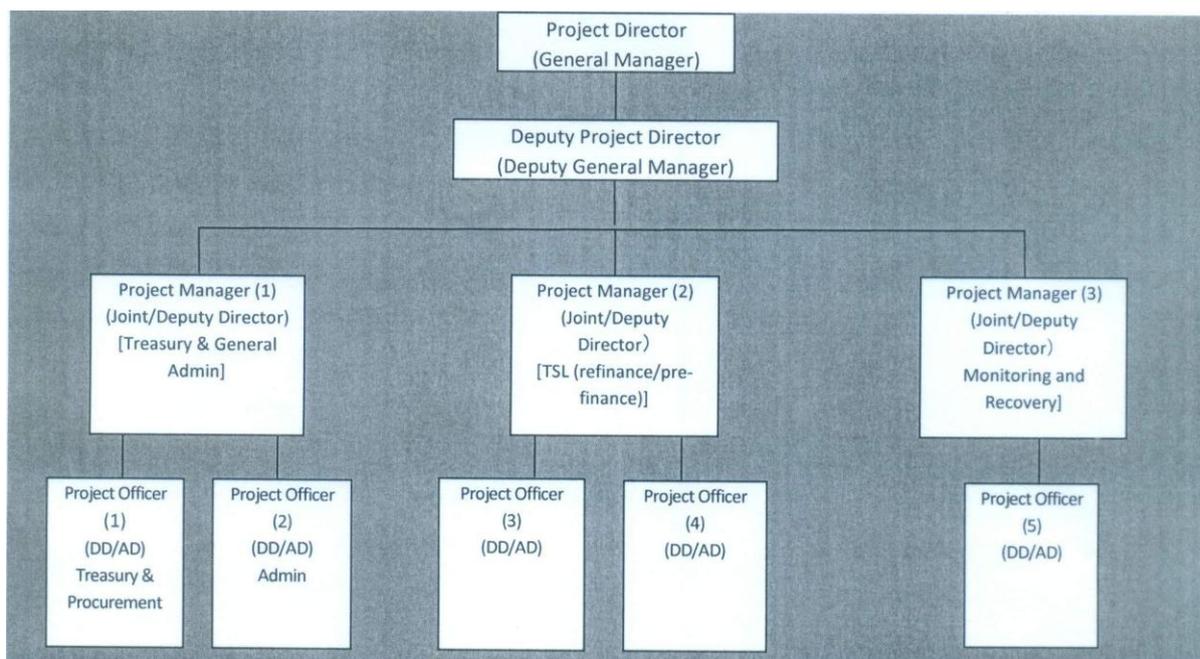
Bangladesh Bank, in particular its Foreign Exchange Investment Department (FEID), will act as an Implementing Agency responsible for the administration of the TSL Component with the aim to achieve the project objective under the Administration Agreement concluded between MOF-BFID and BB after the effectuation of the Loan Agreement. The Implementing Agency will be supported by the Consultant to be employed under the Project.

1.3.4. Project Implementation Unit [FDIPP-Implementation Unit]

For the purpose of the smooth implementation of the TSL Component, the Project Implementation Unit [FDIPP-Implementation Unit] will be established at Foreign Exchange Investment Department (FEID) of BB with a Project Director, a Deputy Project Director, full-time Project Managers and the adequate number of staff members who will specifically handle all relevant tasks related to the TSL Component. The structure of FDIPP-Implementation Unit will be as shown below in Figure 1-1.²

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



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

The functions of the FDIPP-Implementation Unit, which shall be practically performed on behalf of the Implementing Agency, are implementation, administration and operation of the Project. Such functions will be performed by each section comprising the FDIPP-Implementation Unit, which is shown below. If there is any change in the FDIPP-Implementation Unit structure, Bangladesh Bank should request JICA to provide no objection to such changes.

(1) Treasury & Recovery Section

- due maintenance of the Designated Account, the Project Operating Accounts, the Revolving Fund Accounts and the Reserve Accounts established for the TSL Projects, and disbursements of OLL funds, 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 Accounts, Reserve Accounts, BB's Revenue Account and MOF's Revenue Account,
- request for advance disbursement to JICA,
- preparation of statements of the Project Accounts, and
- full cooperation to external audit of the Designated Account, the Project Operating Accounts, the Revolving Fund Accounts as well as to the Statement of Expenditures.

(2) General Administration Section

- coordination with BB's other departments for general affairs, and
- provision of necessary administrative assistance for other sections of FDIPP-Implementation Unit and the Consultants to undertake the technical assistance component for the TSL Component of the Project.

(3) TSL Administration & Appraisal Section

- conducting the accreditation of PFIs, including annual review,
- concluding an Participation Agreement with PFIs, and
- review of OLL Applications from PFIs.

- (4) Lending Promotion & Monitoring Section
 - coordination with PFIs and business associations for PR activities.
 - daily monitoring of the TSL Project,
 - production of quarterly Progress Reports (P/R), including On-going Sub-project Summary Report, and Project Completion Report (PCR), and
 - preparation of Current Repayment and Overdue Status Report.

1.4. Governing Agreements for the TSL Component

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

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

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

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

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

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

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

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

1.4.3. Administration Agreement between MOF and BB

The Administration Agreement officially authorizes BB as the Implementing Agency which has been fully effective since 27 March, 2016 and will be valid until March, 2029 or such other date as may be agreed between the Government of Bangladesh and BB.

1.4.4. Participation Agreement between BB and PFI

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

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

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

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

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

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

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

2. Eligible End-borrowers and Sub-Projects

The TSL-FDI Project aims at FDI promotion through:

- ✓ provision of market-based short- and medium-/ long-term finance to foreign invested corporations and Bangladeshi enterprises in business relationship with foreign corporations, mainly in manufacturing sector, through the accredited PFIs; and
- ✓ provision of technical assistance to banks and financial institutions.

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

2.1. Eligibility Criteria for End-borrowers

PFI will provide a Sub-loan, which is a short/ medium/long term loan to an eligible end-borrower, i.e. eligible FDI related corporations, for its investment in accordance with Participation Agreement. Eligible End-borrowers shall be duly registered under the Company Act 1994 or have appropriate licenses issued by local governments. In view of various potential benefits of TSL-FDI, the eligible end-borrowers of TSL shall further be limited to below:

- (1) Investors in the EZs to be developed under the Project (no restriction regarding the ownership);
- (2) Japanese and Bangladeshi Joint venture enterprises in the EZs to be developed and outside of the EZs .
- (3) Japanese and other foreign Joint venture enterprises in the EZs to be developed and outside of the EZs.
- (4) Japanese investors³, outside of the EZs to be developed under the Project;
- (5) Bangladeshi companies who have substantial amount of deals with Japanese firms outside of the EZs to be developed. Substantial amount of deals means that aggregate amount of deals with Japanese firms is expected to exceed one million USD within one year after applying for the loan.⁴ Bangladeshi companies having business contract with Japanese-invested companies in Bangladesh such as sub-contract, supply contract, service contract etc.. are included in this category.
- (6) End-borrowers with less than three years of operations in Bangladesh could apply for the sub-loan having the prior approval of BB⁵. [In such cases, PFI will submit the proposal of End-borrower for sub-loan (mentioning the possibility of taking facility under FDIPP) to the concerned department of BB with a copy to FDIPP-Implementation Unit for approval. On priority basis, BB will then approve the case within the service standard of BB subject to the submission of all required documents including three years business projection. After receiving the approval of BB, the PFI will then submit the application of OLL to FDIPP-Implementation Unit in accordance with the procedures stipulated in the OG.]

2.2. Eligible Sub-Project

The JICA assisted TSL-FDI Project places higher priority on enhancement of the investment by foreign investors in productive equipment and facilities in order to contribute to the diversification of industries.

2.2.1. Eligible Business Sectors for Investment

Although the TSL-FDI is designed to provide finance mainly for Japanese investors, Japanese/Bangladeshi (other foreign) Joint-Venture enterprises and Bangladeshi investors with strong relationship with Japanese business as mentioned in 2.1 of the Operating Guideline in priority sectors of manufacturing as set in the government policy and key industries in a value chain, investment in any of industrial sectors, i.e., those belonging to either of the manufacturing, trade or service sectors, shall be eligible for TSL on the ground that various sectors are needed for manufacturing sector to effectively implement their operation. Different sectors shall be equally treated with regard to the terms and conditions of loans. The sub-loan approval shall be made on the first-come first-served basis.

³ Including those enterprises outside of Japan established by Japanese enterprises

⁴ PFIs are required to submit audited /verified statement which shows the said amount of transaction with Japanese companies.

⁵ In accordance with the FE Circular No.12 on March 11, 2014

It is expected that the recommended priority industrial sectors and/or types of business targeted under the TSL Component are as follows but not limited to:

- Electric, Electronic Industry
- Light Engineering Industry
- Leather Industry
- Food Processing Industry
- Pharmaceutical Industry
- ICT

However, these targeted sectors should be reviewed and modified by the Steering Committee under TSL Component based on the future trend of industrial development in Bangladesh and future demand of Japanese investors

However, some business sectors listed below are defined as “non-eligible” for financing under the TSL scheme on the basis of the objectives of the Project:

- (1) Real estate;
- (2) Finance, insurance;
- (3) Precious metal dealing;
- (4) Amusement, entertainment;
- (5) Weapon, ammunition; or
- (6) Anything harmful to the social stability.

2.2.2. Eligible Geographical Location

All over Bangladesh.

2.2.3. Purpose of Investment

2.2.3.1. Eligible Investments for financing under the TSL-FDI

In order to enhance investment of foreign investors in the productive equipment and facilities and domestic supporting industries for their operation, the following items will be eligible for financing under the TSL-FDI scheme:

- (1) Fixed Assets, including:
 - machinery and equipment, and
 - factory buildings⁷ and related civil works⁸.
- (2) Working Capital, which is not only associated with effective use of the investment loan but also for regular operations⁹.

2.2.3.2. Ineligible Investments for financing under the TSL-FDI

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

2.3. Environmental and Social Consideration

⁷ Buildings related to the investment include not only those being newly constructed but also buildings purchased. In addition, the building related to the investment includes such as warehouse, workshop and office in the factory.

⁸ Investments for security up gradation for offices premises, facilities and factories for safety and security would be allowed to Japanese and Japanese and Bangladeshi Joint venture enterprises.

⁹ Up to the amount required for fulfillment of contracts in case of Bangladeshi companies with specific contract with foreign-invested companies.

The Sub-project shall pay due consideration on the environmental and social impacts associated with and be required to be in accordance with JICA Guidelines for Environmental and Social Consideration¹⁰ attached as Annex XI. Under the Guidelines, no investment activity will be financed by the TSL-FDI scheme, which is likely to have significant adverse impact on the environment, and which could be classified as Category A. A list of sensitive sectors (i.e., sectors that are liable to cause adverse environmental impact) or sensitive characteristics (i.e., characteristics that are liable to cause adverse environmental impact) is provided in the Guidelines.

2.4. Revision of Eligibility Criteria

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

3. Financing Scheme

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

3.1. Terms and Conditions of Sub-loan

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

Terms and conditions of Sub-loans shall be consistent with acts, rules, regulations and guidelines of Government of Bangladesh such as Bangladesh Bank Guidelines for Foreign Exchange Transactions 2009 and other relevant guidelines/circulars. Also, these terms and conditions shall follow the agreement between Government of Japan and Government of Bangladesh such as Loan Agreement and Project Memorandum. Terms and conditions based on the category of enterprises and location of business are attached in the **Appendix 2**.¹¹

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

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

- ✓ Minimum of 30% of the total estimated cost of Sub-project is to be financed from Borrower's own resources, in cash or in kind;
- ✓ Maximum of 70% of the cost of the Sub-project can be financed from the OLL

¹⁰ The governing rule for the environmental and social consideration for the Project is "JICA Guidelines for Environmental and Social Considerations", 2010.

¹¹ These terms and conditions may change subject to the amendment of the Bangladesh Bank Guidelines for Foreign Exchange Transactions 2009 and other related rules and regulations.

- ✓ window of the TSL scheme; and
- ✓ Sub-loan for Sub-project will not be used to finance such items as: purchase of land, land use rights, payment of tax and import duties, and cost of such activities as resettlement and other compensation cost and refinancing for existing loans¹².

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

- (1) require the End-borrower to use the proceeds of Sub-loan exclusively for the purpose of Sub-project which only includes eligible items as specified above;
- (2) require the End-borrower to carry out and operate the Sub-project with diligence and efficiency and in accordance with sound technical, financial, resettlement, environmental¹³ and managerial standards, including the implementation of the action plan for displaced persons, and to maintain adequate records;
- (3) require the End-borrower to submit their financial statements for every accounting term, at least on an annual basis, until the full repayment of sub-loans;
- (4) inspect, by itself or jointly with representatives of FDIPP-Implementation Unit, MOF-FID or JICA, if they shall so request, such goods, works, plants and constructions and installations, as the case may be, included in the Sub-project, the operation thereof, and any relevant records and documents;
- (5) obtain all such information as JICA, MOF-FID, FDIPP-Implementation Unit or PFI may reasonably request relating to the foregoing and to the administration, operations and functional conditions of the End-borrower, and to the benefits to be derived from the Sub-project;
- (6) involve any remedies against the End-borrower, including suspension, termination or withdrawal of the Sub-loan, which will be available to PFI by law, in event of failure of the End-borrower to perform its obligation under contract with PFI; and
- (7) take any legal action against the End-borrower in case of default following the prevailing rules and regulations and prudential regulations/ guidelines of BB.

3.2. Terms and Conditions of On-lending Loan

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

The principal and interest payments of OLLs shall be made in accordance with the schedule of amortization of each Loan as prepared by FDIPP-Implementation Unit. These payments of interests and repayments of principal shall be realized by debiting them against the current account of the concerned PFI maintained with BB. Then, principals of OLLs shall be credited to Revolving Fund Account (RFA), and **one-fifth (1/5) of interests on OLLs to Revenue Account of BB and four-fifth (4/5) to Revenue Account of MOF, respectively.**

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

¹² The refinancing can be extended only for sub-loans that have been disbursed 1 month prior to PFI's request of the respective OLL. If a sub-loan is disbursed in more than one installment, this cut-off date should be counted from the final disbursement.

¹³ established by GOB

In case of false information, on the other hand, penal interest at the rate of the Bank Rate above the OLL interest rate will be applied on the amount of the OLL. In such cases, BB will recover the entire outstanding loans with interest by way debiting the Current Account of the concerned PFI.

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

3.3. Revision of Terms and Conditions

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

3.4. Financing Method

Both refinancing and pre-financing methods will be allowed for the disbursement of OLLs, depending on the amount of each sub-loan, as follows:

- (1) Refinancing method for sub-loans smaller than BDT 7.0 million; or
- (2) Pre-financing method for sub-loans equal to or above BDT 7.0 million (this could be just an option to be chosen by PFIs)

The OLLs in use of the refinancing method can be extended only for sub-loans that have been disbursed 1 month prior to PFI's request of the respective OLLs¹⁴.

The pre-financing method does not mean that BB will make a certain amount of deposits in a PFI account. Disbursement under the pre-financing method will be made on a loan-by-loan basis.

The initial cut-off amount of Tk 7.0 million used for differentiating financing methods (refinancing versus pre-financing) may be reviewed at the Steering Committee after examining convenience in usage. Any change in the cut-off amount used under the Project shall be reported to JICA.

Under the Refinancing Method, the PFI makes disbursement of the Sub-loan prior to submitting its Request for On-lending to FDIPP-Implementation Unit, whereas under the Pre-financing Method, the PFI makes disbursement after it receives the disbursement of OLL from FDIPP-Implementation Unit. Disbursement under the Pre-financing Method will be made on a loan-by-loan basis, not making a certain amount of deposits in a PFI account.

The OLL in use of the Refinancing method can be extended only for Sub-loans that have been disbursed one (1) month prior to PFI's request of the respective OLL¹⁵.

¹⁴ If a sub-loan is disbursed in more than one installment, this cut-off date should be counted from the final disbursement.

¹⁵ If a Sub-loan is disbursed in more than one installment, this cut-off date should be counted from the latest disbursement.

4. Participating Financial Institution (PFI)

4.1. Accreditation Criteria for PFI

The eligible PFIs for the OLL under the TSL scheme shall be screened by the accreditation criteria¹⁶ set forth in Attachment 18 of the Project Memorandum, which is shown in Annex VIII. The principal items of criteria are following, inter alia:

- (1) Legality (licensed, approved and supervised by BB),
- (2) Commitment to FDI promotion (expansion of lending loans to foreign investors and domestic investors with a business relationship with foreign investors)
- (3) Operational Experiences (minimum 3 full years with audited records),
- (4) Capital Adequacy (compliance with the minimum capital requirement and CAR),
- (5) Profitability (profitable operation for 2 consecutive years),
- (6) Non-Performing Loans (NPL ratio must not exceed 10%),
- (7) CAMELS rating (rated as “1” (Strong) or “2” (Satisfactory)), and
- (8) Prudential regulations (transparency, governance, risk management).

4.2. Accreditation Assessment

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

4.3. Accreditation Procedure

In order for the above process, FDIPP-Implementation Unit shall establish the accreditation procedure which includes the following:

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

4.4. Entry or Exit of PFIs

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

4.5. Loss of Eligibility

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

¹⁶ Any change in the accreditation criteria shall be reviewed and approved by the TSL Steering Committee subject to JICA's review and concurrence.

5. Sub-loan by PFI

5.1. Pre-conditions for Sub-loan

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

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

The PFI shall have the End-borrower prepare an application for the Sub-loan prior to proceeding to the credit appraisal process of the bank. The PFI shall use its own format for Application of Sub-loan. The application shall contain, among others, the information required for the credit appraisal and for examining the compliance of the Sub-loan with the eligibility criteria of the Project. Any part of the information that is required under the TSL-FDI but is not required under the prevailing commercial practice must be provided additionally by the End-borrower to PFI.

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

5.3.1. Credit Appraisal

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

Upon receipt of the Application for Sub-loan, the PFI conducts the credit appraisal in accordance with its own guidelines for commercial lending established by following the Prudential Regulations issued by Bangladesh Bank, i.e. the Prudential Regulations for Banks 2014 issued and updated periodically by Bangladesh Bank. The PFI licensed under Non-Bank Financial Institution (NBFI), similarly complies with the Prudential Regulations for Financial Institutions 2011 issued by BB. A thorough credit and risk assessment should be conducted prior to sanctioning the Sub-loan. The results of the assessment should be presented in the Credit Assessment Report within the PFI that originates from the relationship officer in charge and is reviewed by the Credit Risk Management Unit for identification and probable mitigation of risks. The PFI examines and approves the Sub-loan in accordance with the same procedure, standard and quality of credits as the ones for the PFI's normal lending practice for commercial and industrial investment loans. In the credit appraisal process, the Application for Sub-loan shall be evaluated/ assessed by Credit Risk Management Unit. The PFI shall examine risk areas of the Application for Sub-loan including but not limited to the risks associated with the End-borrower, the industry, the market environment, the supplier/ buyer, the technology adopted, the financial performance, the credit background, the adherence to lending guidelines, the purpose of credit, the project implementation, the security, and social and environmental considerations¹⁷, etc.

¹⁷ The guidelines applied to the Project is "JICA Guidelines for Environmental and Social Considerations (April 2010)"

5.3.2. Collateral and guarantee

A special attention is invited to the issue of collateral conditions for the Sub-loan. Under the TSL-FDI, 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. It is to be noted of the examples of tools complementing the collateral required in such means as- guarantee, hypothecation of products and machinery, group security, social security, etc.

As for guarantee, when end-borrowers apply for the sub-loans, PFIs would be allowed to accept Standby L/C and other forms of guarantee provided by non-resident entities defined as Japanese banks and financial institutions with the prior approval of Bangladesh Bank. PFIs will decide if those guarantees are acceptable for them with their own assessment

Also, when end-borrowers utilize revolving line of credit, they should be allowed to utilize revolving guarantee with which end-borrowers borrow any amount up to a certain pre-approved limit without having to re-apply for the loans each time. The revolving guarantee serves as a guarantee to secure the repayment amount imposed on the end-borrowers under the revolving line of credit¹⁸.

5.3.3. Credit Approval Process

The approval process must reinforce the segregation of the Relationship Officer from the approving authority. The relationship officer should be the owner of the customer relationship and must be held responsible to ensure the accuracy of the entire credit application submitted for approval. The relationship officer must be familiar with the lending guidelines of the financial institution and should conduct due diligence on new borrowers and guarantors. The results of credit assessment should be recommended for approval by the relationship team and forwarded to Credit Risk Management for review and assessment. The credit should subsequently be approved by proper approval committee. The earlier guidelines issued by BB, "Managing Core Risks of Financial Institutions: Credit Risk Management"¹⁹ specifies the Approval Process to be followed by the banks and financial institutions together with the indicative delegated approval authority levels. The documents encompass the five levels of layers for the Application for Loan by the borrower passes through before it will be eventually approved by the financial institution. The layers are conceived to be comprised of— (i) relationship officer/ manager, (ii) zonal/ head office credit risk officer, (iii) head of credit risk management team & head of business units, (iv) credit committee, and (v) executive committee/ board.

5.4. Credit Risk Management at PFI

The Project envisages that the PFI bears the credit risk of the End-borrower and the Sub-loan/ project. The credit risk is the possibility that the borrower or counter party including the guarantor, will fail to meet agreed obligations. The management of the credit risk poses to be the most crucial task for the PFI and, as such, policies and procedures should be solidly established and strictly enforced at the banks and financial institutions. In addition to the compliance with the laws, regulations and regulatory guidelines, the PFI needs to establish a solid system for credit risk management. BB not only regulates the credit risk management among the scheduled banks and NBFIs through establishing rules and regulations but also provides guidelines for the banks and financial institutions to follow in solidifying the credit risk management of the banks and financial institutions.

The "Managing Core Risks of Financial Institutions: Credit Risk Management" (2005) issued by BB has been compiled by the Focus Group established within BB to introduce the Industry's Best Practices. The document has been prepared with the aim of providing directional guidelines to the banks and financial institutions so that the banks and financial institutions will improve risk

¹⁸ Effective subject to the issuance of circular by the corresponding department of Bangladesh Bank.

¹⁹ Bangladesh Bank, "Managing Core Risks of Financial Institutions: Credit Risk Management", July 2005

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

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

5.5. Compliance with the Eligibility Requirement and Operating Guidelines

The eligibility criteria and terms and conditions of On-lending Loan (OLL) and of Sub-loan have been established in prior sections of this Operating Guidelines. The PFI examines the Application and other documents submitted to check whether it complies with the qualifying conditions established by the Project. The conditions for eligibility is prescribed in the Loan Agreement dated December 13th, 2015 signed between JICA and the Government of Bangladesh, the Project Memorandum related to the Loan Agreement dated February 3rd, 2016 and the Minutes of Discussion dated November 20th, 2014 signed between the both parties. The PFIs and the End-borrowers are guided to abide by this Operating Guidelines for handling the Sub-projects as well as the Sub-loans.

5.6. Compliance with the Banking Regulations

In conducting the credit appraisal and approval of the Application, the PFI ensures that the Sub-loan examined is in compliance with the prevailing banking rules, regulations including Guidelines for Foreign Exchange Transactions 2009 and other circulars imposed by the Government and/or the regulatory authority concerned. The PFI under the scheduled banks has to comply with the Prudential Regulation for Banks 2014 of BB for all of their Sub-loans under TSL-FDI. The PFI under Financial Institution license similarly has to comply with the Prudential Regulation for Financial Institution 2011.

5.7. Social and Environmental Consideration

The PFI shall be primarily responsible for examining the environmental and social impacts associated with the Sub-loan/ project in accordance with JICA Environmental Guidelines²⁰. The PFI shall ensure that the End-borrower is required to submit the Environmental Clearance Certificate (ECC) when applying for a Sub-loan, together with all documents required for the issuance of ECC in accordance with the domestic laws and regulations (such as Environmental Impact Assessment (EIA), Initial Environmental Examination (IEE), and so forth). FDIPP-Implementation Unit shall examine the social and environmental impacts associated with the Sub-loan/ project in accordance with JICA Environmental Guidelines, by requiring the PFI to certify that the Sub-loan/ project is compliant with JICA Environmental Guidelines as well as the domestic laws and regulations and that the PFI has collected all the documents mentioned above when applying for OLL. FDIPP-Implementation Unit shall ensure the PFI to be compliant, and the PFIs cause the End-borrower to comply.

²⁰ The governing rule for the environmental and social consideration for the Project is; the one adopted by JICA, “Guidelines for Environmental and Social Considerations”, 2010. The guidelines are accessible through the URL of;

http://www.jica.go.jp/english/our_work/social_environmental/guideline/pdf/guideline100326.pdf

FDIPP-Implementation Unit shall assess and monitor the social and environmental impacts associated with the Sub-loan/ project, and inform its compliance with JICA Environmental Guidelines to JICA by submitting On-going Sub-Project Summary Report quarterly. The relevant articles of JICA Guidelines are quoted for easy reference in ANNEX XI to this Operating Guidelines. FDIPP-Implementation Unit shall immediately report to JICA, and cause the PFI to report to FDIPP-Implementation Unit, any negative effect if and whenever it is observed during the implementation of the Sub-project.

5.8. Sub-loan Agreement

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

5.9. Disbursement of Sub-loan

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

6. On-lending Loan by FDIPP-Implementation Unit

6.1. Pre-conditions for OLL

In taking steps for FDIPP-Implementation Unit to provide funds for OLL under the TSL-FDI, FDIPP-Implementation Unit has to ensure that the following pre-conditions are duly met;

- (1) The PFI has been duly accredited and appointed in accordance with the procedures established by TSL-FDI;
- (2) The PFI has not failed to make debt servicing without any reason that are deemed justifiable by FDIPP-Implementation Unit and has no debt outstanding in arrear at the time of requesting FDIPP-Implementation Unit for OLL; and
- (3) The PFI is compliant with the existing policy of Bangladesh Bank.

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

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

6.3. Examination of the Application for On-lending Loan by FDIPP-Implementation Unit

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

Implementation Unit in advance.

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

- ✓ Shareholders with equity invested by each shareholder and eligibility of end-borrower,
- ✓ Eligible business relationship with Japanese-invested corporation in case of Bangladeshi²¹,
- ✓ Eligible business sector,
- ✓ Eligible investment activity,
- ✓ Eligible investment items,
- ✓ Size of Sub-loan,
- ✓ Rate of interest,
- ✓ Repayment term with grace period,
- ✓ Securities (collateral),
- ✓ Financing structure, and
- ✓ Social and environmental consideration.
- ✓ Conditions given by Guidelines for Foreign Exchange Transactions 2009 and other existing guidelines/circulars if any.

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

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

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

6.4. Disbursement of OLL

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

²¹ Such business relationship will be examined as in the following criteria— (a) Bangladeshi companies who have substantial amount of deals with Japanese firms outside of the EZs to be developed. Substantial amount of deals means that aggregate amount of deals with Japanese firms is expected to exceed one million USD within a year after applying for the loan; (b) Business relationships with Japanese investors— Bangladeshi companies having business contract with Japanese-invested companies in Bangladesh such as sub-contract, supply contract, service contract etc. are included in this category.

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

In order to maintain the records and accounts of OLL disbursement, FDIPP-Implementation Unit shall confirm at least the followings;

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

6.5. Amendment of Application for On-lending Loan

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

6.6. Suspension of Disbursement under the TSL-FDI

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

7. Debt Servicing, Rescheduling and Event of Default

7.1. Payment of Interest and Principal on OLL

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

7.2. Prepayment of Principal

7.2.1. Sub-loan

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

7.2.2. On-lending Loan

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

7.3. Rescheduling

7.3.1. Sub-loan

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

7.3.2. On-lending Loan

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

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

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

8. Fund Management

8.1. Accounts Established

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

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

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

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

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

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

8.2. Receipt of Funds from JICA

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

JICA shall, upon receipt of the request for disbursement in the prescribed format, make the initial advance disbursement of the Loan in the amount as agreed with the Implementing agency.

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

- (1) Statement of Expenditures,
- (2) Reconciliation Statement,
- (3) Financial Forecast, and
- (4) Document evidencing the balance of the Designated Account.

8.3. Flow of Funds

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

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

8.4. Revolving Fund Account

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

8.5. Management of Funds and Fund Accounts

FDIPP-Implementation Unit shall submit to JICA the following statements/reports within six (6) months after the end of each fiscal year of FDIPP-Implementation Unit, until three (3) years after the completion of the disbursement from JICA—

- i) Statement of Designated Account, Project Operating Accounts, Revolving Fund Accounts and Interest Payment of the On-lending Loans (as per Attachment I of the Loan Agreement no.: BD-P86);
- ii) Current Repayment and Overdue Status Report of On-lending Loans (as per Attachment II of the Loan Agreement no.: BD-P86);
- iii) A certified copy of Audit Report²² on the Statements of the Designated Account, Project Operating Account and Revolving Fund Account (as per Attachment III of the Loan Agreement no.: BD-P86);
- iv) Annual review of the performance of the PFIs;
- v) Annual report of the Implementing Agency (including the balance sheet and the profit and loss statement);
- vi) Financial statements of the PFIs (including the balance sheet and the profit and loss statement)

8.6. Management Information System (MIS)

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

²² Audit conducted by Foreign Aided Project Audit Directorate (FAPAD).

9. Promotion of the TSL Project

9.1. Publicity Campaign

The success of the Project depends upon the raising of awareness among the potential Japanese investors and Bangladeshi investors with relationship with Japanese business on the availability of the lending facility for financing the working capital and the long/ medium term investment by them. FDIPP-Implementation Unit ensures to implement publicity measures such as conducting awareness raising campaign, distributing of brochure/pamphlets and/or participating in seminars or workshops of FDI promotion. BB and the PFIs are expected to participate in such publicity promotional activities.

9.2. Advisory Services

In order to make TSL-FDI better accessible and easily available, the PFIs are recommended to establish or assign a particular unit to provide advisory services to the prospective foreign investors concerning on how a FDI corporation can make use of the funds provided by TSL-FDI.

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

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

9.3. Capacity Building of PFIs' Staff

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

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

10. Monitoring

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

10.1. Monitoring by PFI

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

10.2. Measurement of Monitoring Indicators

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

10.3. Monitoring of Environmental and Social Impact

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

10.4. Monitoring by FDIPP-Implementation Unit

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

10.5. Project Status Report

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

(1) Project Description (Relevance)

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

(2) Project Implementation (Efficiency)

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

(3) Benefits Derived from TSL-FDI (Effectiveness)

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

(4) Operation and Maintenance (Sustainability)

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

(5) Evaluation

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

10.6. Monitoring by TSL Steering Committee

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

10.7. Inspection

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

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

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

10.8. Impact Assessment

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

11. Reporting

The results of monitoring activities of the PFIs are channeled into FDIPP-Implementation Unit for overseeing, reviewing and examining. FDIPP-Implementation Unit stores those data and materials for analysis and compilation of its reporting to the parties concerned, including JICA, GOB, etc. JICA requires the following reports to be submitted regularly at the intervals stated. The formats for reporting are included in the Project Memorandum (Attachment B, page 6, clause 47 of the Project Memorandum) dated February 3rd, 2016 signed between JICA and the Government of Bangladesh.

11.1. On-going Sub-Project Summary Report

The PFI shall provide FDIPP-Implementation Unit with the Report on Periodical Review of Sub-Project on a quarterly basis (as of the end of March, June, September, and December of each year) within fifteen (15) days after the end of each quarter for preparing FDIPP-Implementation Unit's Report "On-going Sub-Projects Summary Sheet" to JICA to be submitted quarterly until five years after the completion of the Project²³.

²³ The Completion of Project is defined as (i) the last JICA's disbursement for Two Step Loan under the Loan

11.2. Current Repayment and Over-due Status Report

To be submitted annually until three years after the completion of the disbursement in the Format “Attachment II of the Loan Agreement”. The PFI shall provide FDIPP-Implementation Unit with the data required by FDIPP-Implementation Unit for preparing FDIPP-Implementation Unit’s Report to JICA in a similar form within fifteen (15) days after the end of each fiscal year.

11.3. Quarterly Progress Report

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

11.4. Project Completion Report

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

11.5. Audit Report

Audit shall be made on the “Statements of Designated Account, Project Operating Accounts and Revolving Fund Accounts” and the “Statements of Expenditures” by an independent auditor and be submitted to JICA annually within six months after the end of each fiscal year until three years after the Completion of the Project in the form as determined by the auditor in reference to the standard format shown in Attachment 34 of M/D.

11.6. PFI Performance Review

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

11.7. PFIs’ Annual Reports

Aside from the above-mentioned reporting to the FDIPP-Implementation Unit, PFI is requested to submit Annual Reports (including the balance sheet, the profit and loss statement, and the auditor’s report) annually until three years after the completion of the Project.

PART: II. PROCEDURE

12. Participating Financial Institution (PFI)

12.1. Accreditation Procedure

12.1.1. Application by banks and financial institutions

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

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

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

12.1.2. Due diligence of banks and financial institutions by FDIPP-Implementation Unit

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 CAMELS²⁴ data. The FDIPP-Implementation Unit will examine the information and data on an item by item base to each bank whether the information and data would satisfy the level of each item or not. The examination of each item and aggregate assessment shall be performed in accordance with the Accreditation Assessment Form and its attachment form to summarize the financial statements attached herewith as Annex IX and X, respectively. Those applicant banks evaluated as unsatisfactory level in any one of the criteria will automatically lose eligibility for PFI.²⁵ The FDIPP-Implementation Unit 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 FDIPP-Implementation Unit is authorized to accredit PFIs among those which have been qualified in the assessment. The final decision of the FDIPP-Implementation Unit will be informed to the applicant together with the evaluation made after JICA concurrence obtained and report to TSL Steering Committee.

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

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

As part of its monitoring activities, FDIPP-Implementation Unit 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, FDIPP-Implementation Unit shall accredit PFIs in accordance with the accreditation criteria described in Section 4.1 above. The results of accreditation assessment shall be authorized by the Project Director of FDIPP-Implementation Unit and reported to the TSL Steering Committee.

²⁴ "CAMELS" stand for Capital adequacy, Assets quality, Management ability, Earnings, Liquidity and Sensitivity. Therefore CAMELS evaluation has the six components.

²⁵ The TSL Steering Committee may recommend to BB to make exception to any of the criteria mentioned above with a rationale to do so. BB, in response to such recommendation made by TSC, may consider exception to eligibility criteria based on BB's own analysis.

13. Sub-loan by PFI

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

For the application to be prepared by the End-borrower, the PFI shall use its own format for Application of Sub-loan. The application shall contain, among others, the information required for the credit appraisal and for examining the compliance of the Sub-loan with the eligibility criteria of TSL-FDI. Any part of the information that is required under the TSL-FDI but is not required under the prevailing commercial practice must be provided additionally by the End-borrower to PFI. Upon receipt of the Application from the End-borrower, the PFI assigns its own number to each of the Sub-loan which is distinct and self-indicative as the Sub-loan under the TSL-FDI. The PFI conducts credit appraisal and verification of the compliance, based on the Application submitted by the End-borrower and uses the information submitted for transcription into Form A-1, Application for On-lending (OLL) and Form A-2, Request for Disbursement of OLL for submission and application to FDIPP-Implementation Unit for the disbursement of OLL.

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

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

13.2.1. Credit Appraisal and Verification of Compliance with the Regulations

The approval process may vary among the PFIs. The typical procedures to be followed for the credit appraisal and verification of compliance with the banking regulation, however, appear to be as follows²⁶-

- 1) The End-borrower fills up the Application for Sub-loan with accurate and sufficient information;
- 2) The End-borrower shall provide CIB undertakings, the financial statements, other information, papers and documents required by the relationship officer in charge at the branch office;
- 3) The relationship officer in charge at the branch shall evaluate the End-borrower's Application with due diligence, accomplish the relevant tasks and prepares the Credit Assessment Report;
- 4) The Credit Assessment Report shall be forwarded to zonal office or to head office for review by the Zonal Credit Risk Officer (ZCRO) or Head Office Credit Risk Officer (HCRO);
- 5) ZCRO or HCRO informs the results of review to the branch office;
- 6) ZCRO/HCRO supports the Credit Assessment and forward the recommendation for approval to Head of Business Unit (HOBU) and to Head of Credit Risk (HOCR) for onward recommendation;
- 7) HOCR informs the result of review to ZCRO;
- 8) HOCR and HOBU supports the Credit Assessment Report and forward the recommendation for approval to Credit Committee;
- 9) Credit Committee informs the decision as per the delegated authority to HOCR and HOBU;
- 10) Credit Committee forwards the Credit Assessment Report to Executive Committee/Board for approval within their respective authority; and
- 11) Executive Committee/Board informs the decision to HOCR and HOBU.
- 12)

²⁶ Bangladesh Bank, "Risk Management Guidelines for Banks", February 2012

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

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

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

13.3. Compliance with the Eligibility Requirement and the Operating Guidelines

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

13.4. Compliance with the Banking Regulations

In conducting the credit appraisal and approval of the Application, the PFI ensures that the Sub-loan examined is in compliance with the prevailing banking rules and regulations, and Guidelines For Foreign Exchange Transactions 2009 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 2014 of BB for all of their Sub-loans under TSL. The PFI under Financial Institution license similarly has to comply with the Prudential Regulation for Financial Institutions 2011. The procedures of the PFI established for appraising the normal credits can be adopted for the purpose of the compliance with the Banking Regulations.

13.5. Social and Environmental Consideration

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

The End-borrower and related parties must submit Environmental Impact Assessment (EIA) Report for Category A projects. For projects that will result in large-scale involuntary resettlement, basic resettlement plans must be submitted. The PFI is obliged to obtain and confirm the environmental clearance through such measures as- obtaining the Environmental Clearance Certificate (ECC), Initial Environmental Examination (IEE), Environmental Initial Assessment (EIA), etc. The PFI reports FDIPP-Implementation Unit the steps and measures taken for such clearance. FDIPP-Implementation Unit shall enter into discussion based on the reports submitted by the PFI to cope with the situation. JICA undertakes its environmental reviews based on the EIA and other reports prepared by the End-borrower and submitted through the PFI and FDIPP-Implementation Unit.

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

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

For the Category FI, there shall be no Sub-project to be classified under the Category, as the Sub-loans ought to be taken by the eligible corporations and should be classified into any one of Categories A, B or C.

13.6. Sub-loan Agreement

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

13.7. Disbursement of Sub-loan

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

13.7.1. Disbursement under Refinancing Method

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

13.7.2. Disbursement under Pre-financing Method

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

14. On-lending Loan by FDIPP-Implementation Unit

14.1. Pre-conditions of OLL

Upon receiving the Application for OLL from the PFI, FDIPP-Implementation Unit checks its record to confirm that the PFI duly satisfies the pre-conditions for requesting the Sub-loan to be financed by the Project. The pre-conditions include that the PFI has been duly selected and appointed under the Project and that the PFI has no debt outstanding in arrear at the time of requesting FDIPP-Implementation Unit for the OLL. The sequential activities work for approving and disbursing the

OLL can be referred to the attached Chart A, Workflow for Sub-loan Appraisal and Disbursement <Refinancing Method> and Chart B, Workflow for Sub-loan Appraisal and Disbursement <Pre-financing Method>.

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

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

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

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

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

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

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

The PFI ensures that the sub-loan have been disbursed 1 month prior to PFI's application for the respective OLL. If a sub-loan is disbursed in more than one installment, this cut-off date should be counted from the final disbursement.

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

14.3. Examination of the Application for OLL by FDIPP-Implementation Unit

For each and every Form A-1, Application for OLL submitted, FDIPP-Implementation Unit first assigns unique numbers as FDIPP-Implementation Unit's End-borrower ID Number and FDIPP-Implementation Unit's OLL Number. The End-borrower ID Number is structured as the abbreviated code of the PFI + the branch code + the PFI's borrower code, and FDIPP-Implementation Unit OLL Number is as the abbreviated code of the PFI + sequential number of OLL for the PFI + contract year of OLL.

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

[Process Flow at TSL Administration and Appraisal Section of FDIPP-Implementation Unit]

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

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

14.4. Disbursement of OLL

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

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

In order to maintain the records and accounts of OLL disbursement, FDIPP-Implementation Unit shall confirm at least the followings—

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

14.5. Amendment of Request for On-lending Loan

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

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

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

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

15. Debt Servicing, Rescheduling and Event of Default

15.1. Notice of Due Dates on On-lending Loan

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

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

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

[Process Flow at Treasury and Recovery Section of FDIPP-Implementation Unit]

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

15.3. Prepayment of Principal

15.3.1. Sub-loan

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

15.3.2. On-lending Loan

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

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

15.4. Rescheduling

15.4.1. Sub-loan

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

15.4.2. On-lending Loan

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

[Process Flow at TSL-FDI Administration and Appraisal Section of FDIPP-Implementation Unit]

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

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

15.5. Non-payment on Due Dates

15.5.1. Sub-loan

Should the PFI find any of its Sub-loans failing to make payment on due date, the PFI notifies FDIPP-Implementation Unit 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 FDIPP-Implementation Unit. The non-payment shall be reported immediately to the appropriate authority through the Project Director. The process shall accompany, among others, the following sequential steps of actions—

[Process Flow at Treasury and Recovery Section of FDIPP-Implementation Unit]

- ✓ Receiving the Notice of Non-payment from the PFI,
- ✓ Submitting the report of non-payment of Sub-loan to the appropriate authority through the Project Director,
- ✓ Searching FDIPP-Implementation Unit file if there exists any Sub-loan outstanding for the same End-borrower reported for non-payment,

- ✓ Hearing the measures for recovery from the PFI and urging the PFI to take appropriate actions, and
- ✓ Providing a caution notice to the other PFIs lending to the same End-borrower, if found through the search efforts, of the non-payment at the first PFI.

16. Fund Management

16.1. Accounts Established

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

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

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

16.2. Receipt of Funds from JICA

For requesting the initial disbursement under the Project, FDIPP-Implementation Unit shall submit the Request for Disbursement as per Form RFD (A) and the following documents attached to the Schedule 8 of the Loan Agreement or to the Brochure on Advance Procedure for Japanese ODA Loans. JICA shall, upon receipt of the request for disbursement in the prescribed format, make initial disbursement of the Loan in the amount not exceeding the amount agreed between JICA and the Implementing Agency.

- (1) Financial Forecast for the subsequent two terms
- (2) Document evidencing the opening of the Designated Account

For requesting the replenishment of funds for the Designated Account, FDIPP-Implementation Unit shall submit the Request for Disbursement as per Form RFD(A) attached to the Schedule 8 of the Loan Agreement or to the Brochure on Advance Procedure for Japanese ODA Loans. Replenishment of the account shall be made by JICA upon receipt of the request for disbursement accompanied by the following documents;

- (1) Financial Forecast for the subsequent two terms,
- (2) Reconciliation Statement as per Form RS,
- (3) Statement of Expenditures as per Form SOE (A), and
- (4) document evidencing the balance of the Designated Account.

Through the operation, the Advance Procedure intends to match the cumulative total amount of disbursements including the initial disbursement with the cumulative total amounts of the expenditures to be expressed in the last column, “Amount for JICA Financing in Request Currency (JPY)” of SOEs.

16.3. Flow of Funds

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

In recovery of the OLL extended, Form B-5, Notice of Due Dates of Principal and/or Interest shall be sent by FDIPP-Implementation Unit to the PFI prior to the due date in which FDIPP-Implementation Unit shall inform the PFI that the PFI's account at BB shall be debited for the amount coming due on the specified due dates. On the due date notified, Accounts and Budgeting Department of BB shall debit the account of the PFI for the amount instructed by FDIPP-Implementation Unit. 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 1/5th shall be credited to BB's Revenue Account and 4/5th to GoB's Revenue Account.

16.4. Management of Funds and Fund Accounts

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

16.5. Management Information System (MIS)

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

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

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

17. Promotion of the Project

17.1. Publicity Promotion

FDIPP-Implementation Unit 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. FDIPP-Implementation Unit, with the assistance of the consultants, plans, prepares and executes the publicity promotion in active utilization of the means and media discussed. FDIPP-Implementation Unit will consider and discuss the publicity promotion with the parties concerned for FDI promotion including but not limited to; MOI, MOC, BOI, JBCCI, etc. in seeking the opportunities of co-working for promoting the Project. Participation of the PFIs in such activities is expected.

17.2. Advisory Services

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

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

17.3. Capacity Building of PFIs' Staff

FDIPP-Implementation Unit may be requested by the PFI for assisting the establishment of training programs and its execution. FDIPP-Implementation Unit 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, FDI dedicated desks, Foreign Investors Service Centers, etc. For general training of industrial term finance, Bangladesh Institute of Bank Management (BIBM) and Bangladesh Bank Training Academy (BBTA) are providing several courses in corporate financing which can be availed by the PFI for strengthening its institutional capacity in industrial term lending. The PFI is requested to report the performance of the capacity building activities when submitting Form C-5, PFI Report on Monitoring Indicators.

18. Monitoring

18.1. Monitoring by PFI

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

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

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

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

For individual sub-project monitored, the PFI shall report the findings from monitoring activities in sending Form A-9, Monitoring Report of Sub-project whenever a material deviation from the original project plan in the monitoring items described above is identified or anticipated. In addition, the PFI shall submit Form C-4.2, PFI Report on On-going Project Summary containing all of the PFI's Sub-loans outstanding at the end of the quarter to FDIPP-Implementation Unit 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-6, PFI Report on Current Repayment and Overdue Status to FDIPP-Implementation Unit within fifteen (15) days after the end of each year.

18.2. Measurement of Monitoring Indicators

The PFI shall collect the data specified in Form C-5, PFI Report on Monitoring Indicators, for the baseline and actual achievement and submit to FDIPP-Implementation Unit for each quarter up till three (3) years after the completion of the Project within fifteen (15) days after the end of the quarter. The data required as the Monitoring Indicators are comprised of the following items;

- 1) Operation and Effect Indicators:
 - ✓ Fixed assets of the benefited corporations,
 - ✓ Sales turnover of the benefited corporations,
 - ✓ Profit of the benefited corporations,
 - ✓ Employment of the benefited corporations,
 - ✓ Total industrial term loan outstanding of the PFIs to corporations, and
 - ✓ Ratio of industrial term lending in total loan outstanding of the PFIs.

- 2) Supporting Indicators:
 - ✓ Number of Sub-loan cases disbursed under the Project,
 - ✓ Cumulative amount of Sub-loans disbursed under the Project,
 - ✓ TSL loan (Sub-loan) outstanding of the PFIs to foreign investors,
 - ✓ Ratio of Sub-loan to foreign investors in total Sub-loans,
 - ✓ Collection ratio of TSL (Sub-loan),
 - ✓ Ratio of the numbers of Sub-loans in arrear in total number of Sub-loans,
 - ✓ Ratio of the amount of Sub-loans in arrear in total Sub-loan outstanding (infection ratio),
 - ✓ Number of seminars held by FDIPP-Implementation Unit to the PFIs.

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

18.3. Monitoring of Social and Environmental Impact

The PFI is held responsible for monitoring the social and environmental impact of the Sub-project. The result of the monitoring by the PFI shall be reported to FDIPP-Implementation Unit by the periodical as well as the ad-hoc report. The periodical reporting shall be made by submitting the Form C-4.2, PFI Report on On-going Sub-project Summary within which the columns are assigned for reporting of the Environmental Category of the Sub-project based on JICA's Environmental and Social Guidelines and the adverse impact, if any, that has been observed.

18.4. Monitoring by FDIPP-Implementation Unit

FDIPP-Implementation Unit shall execute following courses of actions to discharge its monitoring obligation under the Project—

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

18.5. Periodical Reporting

FDIPP-Implementation Unit shall report the findings from monitoring activities in sending JICA and TSL Steering Committee the Quarterly Progress Report whose format is exemplified under the title of Project Status Report in the M/D. For compilation of the Project Status Report, FDIPP-Implementation Unit shall require the PFI to submit periodically the pertinent data and information in the forms of Form C-4.2, PFI Report on On-going Sub-project Summary, Form C-6, PFI Report on Current Repayment and Overdue Status, Form C-5, PFI Report on Monitoring Indicators and other ones that would be reasonably requested.

18.6. Monitoring by TSL Steering Committee

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

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

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

18.7. Inspection

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

18.8. Impact Assessment

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

19. Reporting

JICA requires the following reports to be submitted regularly at the intervals stated. The formats for reporting are included in the Project Memorandum dated February 3rd, 2016 signed between JICA and the Government of Bangladesh. The flow of work for monitoring and reporting can be referred to the attached Chart F, Workflow for Monitoring.

19.1. On-going Sub-projects Summary Report

To be submitted quarterly until five years after the Completion of the Project in the Format “Attachment 31 of M/D”²⁹. The PFI shall provide FDIPP-Implementation Unit with the pertinent data required by FDIPP-Implementation Unit for preparing the report to JICA in the Form C-4.2, PFI Report on On-going Sub-project Summary, within fifteen (15) days after the end of each quarter.

19.2. Current Repayment and Over-due Status Report

To be submitted annually until three years after the Completion of the Project in the Format “Attachment 32 to M/D”. The PFI shall provide FDIPP-Implementation Unit with the pertinent data required by FDIPP-Implementation Unit for preparing the report to JICA in the Form C-6, PFI Report on Current Repayment and Overdue Status, within fifteen (15) days after the end of each quarter.

19.3. Quarterly Progress Report

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

19.4. Project Completion Report

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

19.5. Audit Report

The Audit shall be made on the Statement of Designated Account, Project Operating Accounts, Revolving Fund Accounts and Statement of Expenditures by an independent auditor and be submitted to JICA annually within six months after the end of each fiscal year until three years after the Completion of the Project. To be submitted annually until three years after the Completion of the Project in the form as determined by the auditor in reference to the standard format being attached to L/A in Attachment III and , and shown in Attachment 34 of M/D.

19.6. PFI Performance Review

To be submitted annually until five years after the Completion of the Project in the form in which FDIPP-Implementation Unit reports the result of annual review to the TSL Steering Committee.

19.7. PFIs’ Annual Reports

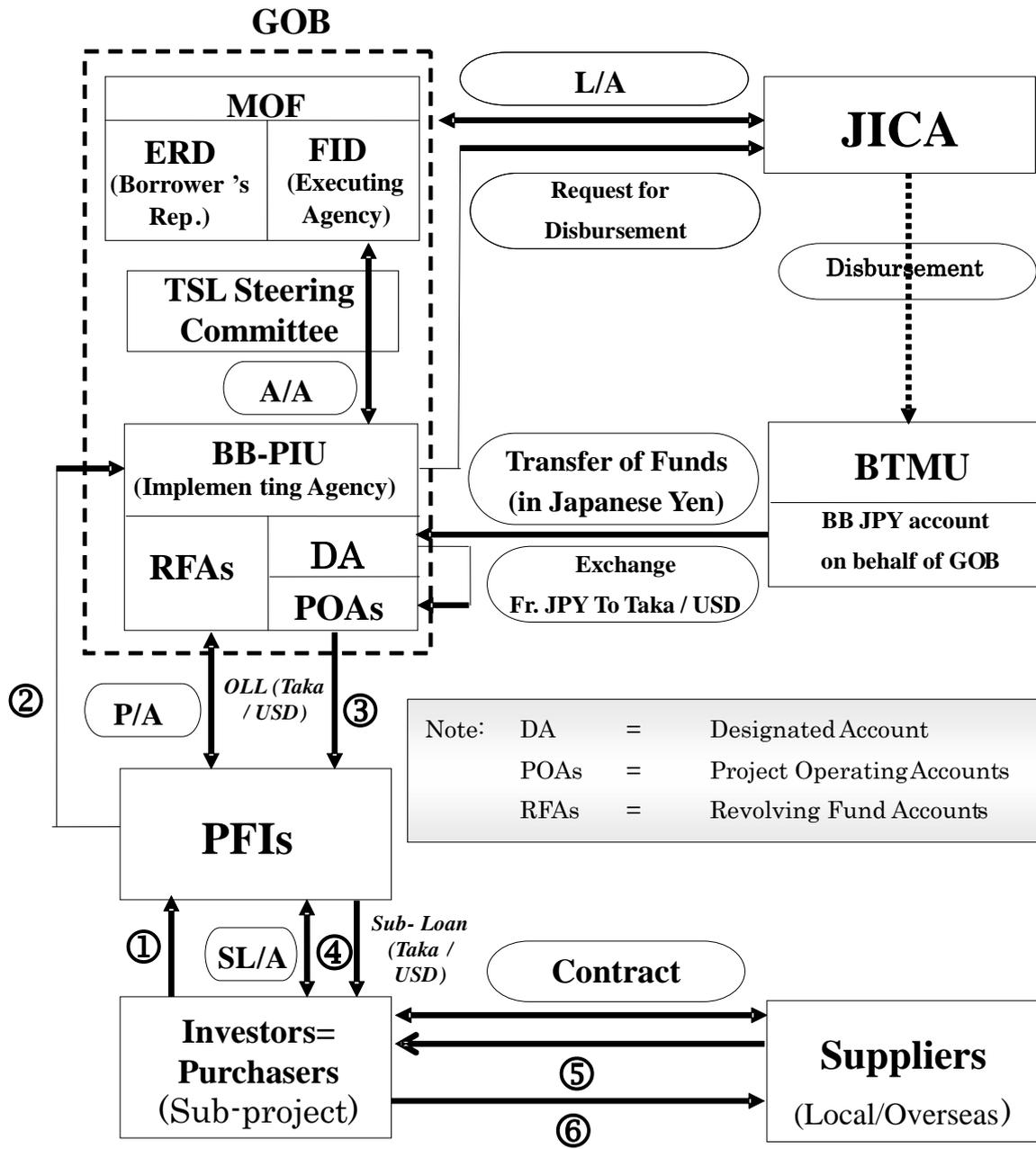
To be submitted annually until five years after the Completion of the Project.

²⁹ The Completion of Project is defined as (i) the last JICA’s disbursement for the Project under the Loan Agreement or (ii) the expiry of the Loan Agreement period of the Project, whichever comes first.

ANNEX I: Requirement for Modification of Policy Guidelines

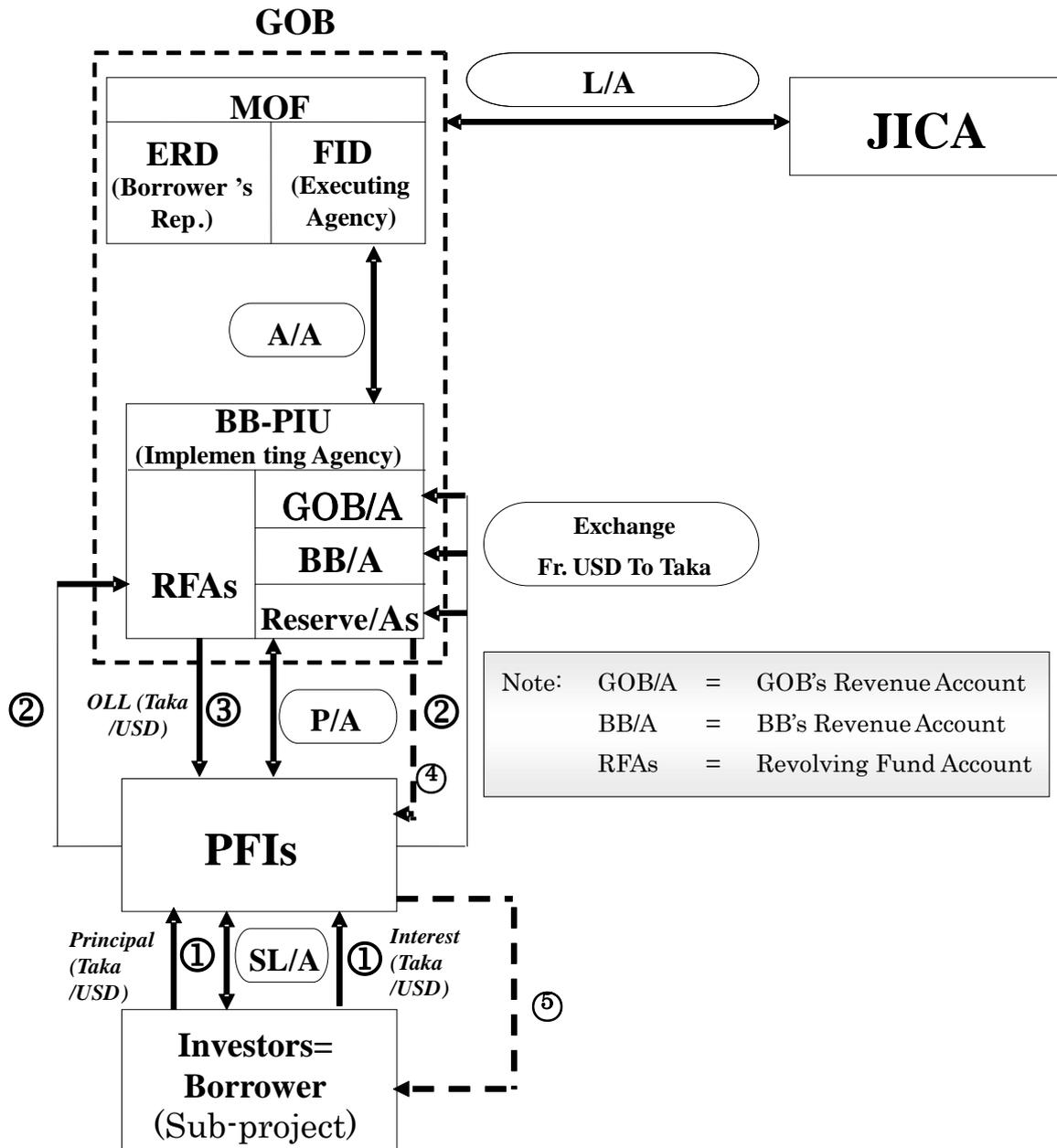
Guideline	Authority for significant modification	Reporting Requirement
TSL Steering Committee		
composition	MOF-FID	JICA and TSL-Steering Committee (once it is established)
member	MOF-FID	MOF-FID
functions	MOF-FID	JICA and TSL-Steering Committee (once it is established)
Project Implementation Unit		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

ANNEX II: Key Players and Funds Flow of the TSL Component (Disbursement)



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

ANNEX III: Key Players and Funds Flow of the TSL Component (Repayment)



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

ANNEX IV: Participation Agreement

Participation Agreement between Bangladesh Bank and

This Agreement is signed on the day of _ 20__

BETWEEN

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

And

a)³⁰ duly established under Companies Act of 1991 and carrying on its business under BB's
license No. dated having its head office, at , Dhaka (hereinafter called the
Participating Bank).

b)³¹ duly established under Companies Act of 1994 and carrying on its business under BB's
license No. dated having its head office, at , Dhaka (hereinafter called the
Participating Financial Institution).

Preamble

Whereas:

- (A) Japan International Cooperation Agency (JICA) has provided a loan fund of Japanese Yen 7,033 million to Government of Bangladesh (GOB) under the Two-Step Loan Component of Foreign Direct Investment Promotion Project (Loan No. BD-P86 dated December 13, 2015) to support the Two-Step Loan Project for Foreign Direct Investment Promotion (hereinafter called the "TSL-FDI Project") introduced by BB through its FEID Circular No. dated , 2017, to provide On-lending Loans to banks and financial institutions for lending in the FDI sector:
- (B) Bangladesh Bank has been entrusted with the responsibility to administer the TSL-FDI Project on behalf of GOB under the Administration Agreement dated March 27, 2016:
- (C) It is requested to enter into a participation agreement between BB and the lending banks and non-bank financial institutions (hereinafter called the "PFIs") interested to avail the On-lending Loan facilities out of JICA fund; and
- (D) Whereas the PFI fulfills the eligibility criteria as set forth in clause of FEID Circular No. , dated and is willing to avail the On-lending Loan facility from the above mentioned fund on terms and conditions described in the said Circular.

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

³⁰ Applicable for Banks

³¹ Applicable for Financial Institutions

Article – I

Definition:

Section 1

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

- (a) “Bank” means any banking company operating in Bangladesh having license from Bangladesh Bank.
- (b) “Financial Institution” means any non-bank financial institution engaged in financing and leasing business having license from Bangladesh Bank.
- (c) “FEID” means Foreign Exchange Investment Department of Bangladesh Bank.
- (d) “FDIPP Implementation Unit” means a unit established at FEID of BB to specifically handle all relevant tasks related to the TSL Projects.
- (e) “PFI” means a Participating Financial Institution; either bank or non-bank financial institution.
- (f) “On-lending Loan” means the loan granted by Bangladesh Bank to banks or non-bank financial institutions under this TSL Project.
- (g) “FDI” means foreign direct investment.
- (h) “End-borrower” means a corporation satisfying the criteria described in paragraph 13 of this Agreement for receiving a Sub-loan from a PFI.
- (i) “Sub-loan” means a loan provided by the Participating Financial Institution to a corporation as described in paragraph 13 of this Agreement.
- (j) “Sub-project” means an investment project of a corporation to be financed by a Sub-loan.

Article – II

Objectives and Target Group:

Section 2

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

Section 3

- (1) BB shall provide On-lending Loan against the loans made or to be made by the Participating Bank/ Participating Non-bank Financial Institution to a corporation the amount of which in individual case shall range Taka 10,000,000 to Taka 500,000,000.

- (2) The corporations having leased land & building in those Economic Zones as per laid out in FEID Circular No. ,MONTH DATE, YEAR, any other Japanese owned/controlled corporations in Bangladesh, and the corporations having business relationships (refer to Section 2.1 and 6.3 of the Operating Guidelines for TSL Component of FDIPP in Bangladesh) with these Japanese invested corporations shall be eligible for End-borrowers.
- (3) The Participating Bank/ Participating Non-bank Financial Institution will be required to submit Demand Promissory Note amounting equal to the disbursement each time it receives refinancing or pre-financing under this Agreement.
- (4) Any Sub-loan, along with its own contribution, BB shall not finance more than 70% of the cost of the qualified Sub-project; and the qualified End-borrower shall finance at least 30% of the cost of qualified Sub-project.
- (5) Any Sub-loan in Taka for capacity expansion of foreign owned/controlled industrial firms not in conformity with the provision for general authorization to banks/ financial institutions under the Chapter 16, Paragraph 4 (B) of the Guidelines for Foreign Exchange Transactions Volume-1, 2009 may be extended/ renewed by PFIs with prior Bangladesh Bank approval.

Article – III

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

Section 4

- (1) The On-lending Loan will be available only for loans having following maturities:
 - (a) Long term : More than 5 years and up to 10 years.
 - (b) Medium term: Not less than 2 years and up to 5 years.
 - (c) Short term : 1 year,
renewable, subject to actual sales and production.
- (2) The On-lending loans shall be repaid by the Participating Bank/ Participating Non-bank Financial Institution in accordance with fixed repayment schedule as prepared by BB. Repayment terms for On-lending Loans of different maturities shall be as under:

Long term:

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

Medium term:

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

Short term:

Repayable within one year from the date of disbursement.

Section 5

- (1) The Participating Financial Institution shall apply interest rate on the Sub-loans made to the End-borrowers but not higher than the On-lending interest rate plus 5.0 per cent for lending in Bangladeshi Taka.
- (2) Maximum Sub-loan size is Tk 300,000,000. If the amount is more than Tk 300,000,000, Bangladesh Bank may approve the sub-loan under the agreement of Steering Committee.
- (3) For each Sub-loan, PFI shall specify to End-borrower and BB the effective rate of interest inclusive of all charges and fees as well as the method of calculating the interest rates, such as the declining balance method or the flat rate method.

Section 6

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

Section 7

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

Section 8

In case the Participating Financial Institution is found to have received On-lending Loan under the scheme on the basis of such statement and information which may subsequently be proved false or incorrect, BB shall have the right to impose penal interest at the rate of the Bank Rate above the OLL interest rate on the amount of the On-lending Loan. In such cases, BB will recover the entire outstanding loans with interest by way of debiting the current account of the concerned PFI.

Section 9

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

Article – IV

Miscellaneous

Section 10

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

- (a) maintain a sound financial structure, a healthy portfolio, and the organization, management, staff and other resources required for the efficient carrying out of its activities;
- (b) conduct its operation and affairs including interest rate policies in accordance with sound financial principles and practices;
- (c) maintain a lending and investment policy conducive to the growth and development of FDI sector and maintain suitable procedures and adequate number of suitably qualified staff to enable it effectively to:
 - (i) appraise the financial, technical, environmental and economic feasibility of Sub-projects and to make Sub-loans to End-borrowers in accordance with sound lending and investment policy and in keeping with the principles, terms and conditions set forth in BB's FEID Circular No. dated as well as the Operating Guidelines for the TSL-FDI Project;
 - (ii) supervise and monitor the proper use of the Sub-loans by End-borrowers; and
 - (iii) undertake not to assign, amend, abrogate or waive any of its agreements with the End-borrower providing for loans or investments or any provision thereof without the approval of BB.

Section 11

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

- (a) inspect by BB itself or jointly with representatives of the GOB and/or the JICA, such goods and sites, works, plants, constructions included in the investment Sub-project of the End-borrowers, the operation thereof, and any relevant records and documents;
- (b) obtain all such information as BB, GOB or JICA shall request relating to the forgoing and to the administration, operation and financial conditions of the End-borrower and to the benefit to be derived from the concerned Sub-project, including but not limited to the evidence of use of the proceeds of the Sub-loan, financial statements for every accounting term;
- (c) suspend or terminate the right of the End-borrower to the use of the proceeds of the Sub-loan upon failure by such End-borrower to perform its obligations under its contract with the Participating Financial Institution; and

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

Section 12

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

Section 13

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

Section 14

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

Witness:

For and on behalf of

Bangladesh Bank

.....

(Authorized Representative)

Witness:

For and on behalf of

(Participating Bank/ Financial Institution)

.....

(Authorized Representative)

.....

ANNEX V: Ineligible Investment Activities List

1. No investment activity will be financed by the TSL scheme, which is likely to have significant adverse impact on the environment, and which could be classified as Category A pursuant to 'JICA Guidelines for Environmental and Social Considerations' (April 2010). Category A, in principle, includes projects in sensitive sectors (i.e., sectors that are liable to cause adverse environmental impact) or with sensitive characteristics (i.e., characteristics that are liable to cause adverse environmental impact) and projects located in or near sensitive areas, as follows:

Sensitive Sectors

Large-scale projects in the following sectors:

- (1) Mining, including oil and natural gas development
- (2) Oil and gas pipelines
- (3) Industrial development
- (4) Thermal power, including geothermal power
- (5) Hydropower, dams and reservoirs
- (6) Power transmission and distribution lines involving large-scale involuntary resettlement, large-scale logging, or submarine electrical cables
- (7) River/erosion control
- (8) Roads, railways and bridges
- (9) Airports
- (10) Ports and harbors
- (11) Water supply, sewage, and wastewater treatment that have sensitive characteristics or that are located in sensitive areas or in their vicinity
- (12) Waste management and disposal
- (13) Agriculture involving large-scale land clearing or irrigation

Sensitive Characteristics

- (1) Large-scale involuntary resettlement³²
- (2) Large-scale groundwater pumping³³
- (3) Large-scale land reclamation³⁴, land development and land clearing³⁵
- (4) Large-scale logging³⁶

Sensitive Areas

Projects in the following areas or their vicinity

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

<Natural Environment>

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

³² "Large-scale" in this case means the involuntary resettlement of over 200 persons approximately.

³³ "Large-scale" in this case means the groundwater pumping of over 10 million cubic meters per year approximately.

³⁴ "Large-scale" in this case means the land reclamation of over 50 ha approximately.

³⁵ "Large-scale" in this case means the land development or land-clearing of over 100 ha approximately.

³⁶ "Large-scale" in this case means the logging of over 100 ha of forests approximately.

<Social Environment>

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

2. In addition to the above, the following activities³⁷ will not be eligible for financing under the TSL scheme:

Prohibited Investment Activities List

- (1) Production or activities involving harmful or exploitative forms of forced labor³⁸ or child labor³⁹;
- (2) Production of or trade in any product or activity deemed illegal under host country laws or regulations or international conventions and agreements or subject to international phase-outs or bans, such as (a) pharmaceuticals⁴⁰, pesticides, and herbicides⁴¹, (b) ozone-depleting substances⁴², (c) polychlorinated biphenyls⁴³ and other hazardous chemicals⁴⁴, (d) wildlife or wildlife products regulated under the Convention on International Trade in Endangered Species of Wild Fauna and Flora⁴⁵, and (e) transboundary trade in waste or waste products⁴⁶;
- (3) Production of or trade in weapons and munitions, including paramilitary materials;
- (4) Production of or trade in alcoholic beverages, excluding beer and wine⁴⁷;
- (5) Production of or trade in tobacco¹⁸;
- (6) Gambling, casinos, and equivalent enterprises¹⁸;
- (7) Production of or trade in radioactive materials⁴⁸, including nuclear reactors and components thereof;
- (8) Production of, trade in, or use of unbonded asbestos fibers⁴⁹;
- (9) Commercial logging operations or the purchase of logging equipment for use in primary tropical moist forests or old-growth forests;
- (10) Marine and coastal fishing practices, such as large-scale pelagic drift net fishing and fine mesh net fishing, harmful to vulnerable and protected species in large numbers and damaging to marine biodiversity and habitats; and
- (11) Production or activities that impinge on lands owned, or claimed under adjudication, by Indigenous Peoples, without full documented consent of such peoples.

³⁷ This list is added in reference to the Prohibited Investment Activities List adopted in ADB's Small and Medium-Sized Enterprise Development Project.

³⁸ Forced labor means all work or services not voluntarily performed, that is, extracted from individuals under threat of force or penalty.

³⁹ Child labor means the employment of children whose age is below 14.

⁴⁰ A list of pharmaceutical products subject to phase-outs or bans is available at <http://www.who.int>.

⁴¹ A list of pesticides and herbicides subject to phase-outs or bans is available at <http://www.pic.int>.

⁴² A list of the chemical compounds that react with and deplete stratospheric ozone resulting in the widely publicized ozone holes is listed in the Montreal Protocol, together with target reduction and phase-out dates. Information is available at <http://www.unep.org/ozone/montreal.shtml>.

⁴³ A group of highly toxic chemicals, polychlorinated biphenyls are likely to be found in oil-filled electrical transformers, capacitors, and switchgear dating from 1950 to 1985.

⁴⁴ A list of hazardous chemicals is available at <http://www.pic.int>.

⁴⁵ A list is available at <http://www.cites.org>.

⁴⁶ As defined by the Basel Convention; see <http://www.basel.int>.

⁴⁷ This does not apply to project sponsors who are not substantially involved in these activities. Not substantially involved means that the activity concerned is ancillary to a project sponsor's primary operations.

⁴⁸ This does not apply to the purchase of medical equipment, quality control (measurement) equipment, and any equipment for which ADB considers the radioactive source to be trivial and/or adequately shielded.

⁴⁹ This does not apply to the purchase and use of bonded asbestos cement sheeting where the asbestos content is less than 20%.

ANNEX VI: Terms and Conditions of Sub-loans

Lender:	The PFIs (The eligible banks and financial institutions)
Borrower:	Clients of PFIs (See “Eligibility Criteria for End-borrowers)
Currency:	Bangladesh Taka.
Amount:	Up to Tk 300,000,000 equivalent. If the amount is more than Tk 300,000,000, Bangladesh Bank may approve the sub-loan under the agreement of Steering Committee.
Terms and Conditions	
Term:	2 - 5 years (incl. grace up to 1 year) 5 - 10 years (incl. grace up to 2 years) Working Capital: 1 year, annually renewable ⁵⁰
Interest rate:	To be determined by arrangement between PFI and Borrower in compliance with the rules and regulations prevailing in Bangladesh, but not higher than Bank Rate plus 5.0% margin.
Repayment Schedule:	To be determined by arrangement between PFI and Borrower in compliance with the rules and regulations prevailing in Bangladesh
Interest payment:	To be determined by arrangement between PFI and Borrower in compliance with the rules and regulations prevailing in Bangladesh
Prepayment:	To be determined by arrangement between PFI and Borrower in compliance with the rules and regulations prevailing in Bangladesh
Security:	To be determined by arrangement between PFI and Borrower in compliance with the rules and regulations prevailing in Bangladesh
Others	Prior Approval of Bangladesh Bank would be required when the total debt-equity ratio of the end-borrower exceeds 50:50 when foreign owned/controlled companies are applying for loans in term lending in Taka under the Guideline for Foreign Exchange Transactions.

⁵⁰ based on actual results of sales and production under the Sub-project

ANNEX VII: Terms and conditions of On-lending Loans

Lender	BB
Borrower	Eligible PFIs
Amount	Synchronized with that of the respective sub-project. However, the OLL will be within 70% of the cost of Sub-project.
Currency	Bangladesh Taka.
Terms & Conditions:	
Term (grace): (Working Capital)	2 - 5 years (incl. grace up to 1 year) 5 - 10 years (incl. grace up to 2 years) 1 year, annually renewable ⁵¹
Maturity:	Synchronized with that of the respective Sub-loan, i.e., Equal to the maturity of the Sub-loan
Interest rates:	(OLL in Taka) Bangladesh Bank Rate (currently at 5% p.a.)
Interest payment:	Quarterly (calculated on accrual basis)
Penalty: (a) Delay in Payment	Overdue is not expected, as BB will realize the installment amount plus applicable interests by debiting them against the current account of the concerned PFI maintained with BB. However, the PFI may be allowed to make delay in payment for 3 working days on valid ground with condition that request for such delay shall be made in advance and that a penalty of 3% above the OLL interest Rate on due amount applied for.
(b) False information	In case of false information, penal interest rate at the rate of the Bank Rate above the OLL interest rate will be applied on the amount of the OLL.
Security:	In case that a PFI fails to repay any installment of loans as per the repayment schedule, BB may realize the installment amount plus applicable interests by debiting them against the current account of the concerned PFI maintained with BB.

⁵¹ renewable being synchronized with Sub-loan

ANNEX VIII: Accreditation Criteria for PFIs

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

(1) Legality

- (i) Scheduled Banks duly licensed, approved and supervised by BB in accordance with the Banking Companies Act, 1991; or
- (ii) Non-Bank Financial Institutions duly licensed, approved and supervised by BB in accordance with the Financial Institutions Act, 1993.

(2) Operational Experiences

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

(3) Capital Adequacy

Banks and financial institutions failing to meet the risk weighted capital adequacy ratio as regulated by BB⁵² shall not be eligible for PFIs.

(4) Profitability

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

(5) Non-Performing Loans (NPL)

To qualify for a PFI, the NPL ratio of Banks and financial institutions ratio must not exceed 10% for the latest fiscal year

(6) CAMELS Rating

Only banks and financial institutions that are rated as “1” (Strong), or “2” (Satisfactory), according to the CAMELS rating for BB’s monitoring and supervision shall qualify for PFIs.

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

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

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

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

3. In addition to the above criteria, The PFIs must comply with the following criteria:

(10) Willing to support FDI from abroad

(11) Eligibility as off-shore banking or Authorized Dealer (applicable for banks only)

⁵² As of January 2014, all the banks and the non-bank financial institutions (NBFIs) are required to maintain the minimum capital adequacy ratio not lower than 10.0%.

ANNEX IX: Accreditation Assessment Form

Accreditation Assessment Form

(Name of Financial Institution: _____)

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

ANNEX X: Financial Statements
Attachment to Accreditation Assessment Form

Attachment I: Financial Statements											
(Name of Financial Institution: _____)											
(in Taka billion)											
	2011	2012	Shares	Growth	2013	Shares	Growth	2014	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			#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!		#DIV/0!	#DIV/0!	#DIV/0!
(=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!
Source:											
Note: The fiscal year ends in											

ANNEX XI: JICA Guidelines for Environmental and Social Considerations

Following is the excerpts of the relevant articles from the JICA Guidelines for Environmental and Social Considerations that is the rule applicable to the Project⁵³.

- **Article 1.4. Basic Principles Regarding Environmental and Social Considerations**
While project proponents etc. bear the ultimate responsibility for the environmental and social considerations of projects, JICA supports and examines appropriate environmental and social considerations undertaken by project proponents etc. to avoid or minimize development projects' impacts on the environment and local communities, and to prevent the occurrence of unacceptable adverse impacts.
- **Article 2.2. Categorization**
 1. JICA classifies projects into four categories according to the extent of environmental and social impacts, taking into account an outline of project, scale, site condition, etc.
 2. **Category A:** Proposed projects are classified as Category A if they are likely to have significant adverse impacts on the environment and society. Projects with complicated or unprecedented impacts that are difficult to assess, or projects with a wide range of impacts or irreversible impacts, are also classified as Category A. These impacts may affect an area broader than the sites or facilities subject to physical construction. Category A, in principle, includes projects in sensitive sectors, projects that have characteristics that are liable to cause adverse environmental impacts, and projects located in or near sensitive areas. An illustrative list of sensitive sectors, characteristics, and areas is provided in Appendix 3.
 3. **Category B:** Proposed projects are classified as Category B if their potential adverse impacts on the environment and society are less adverse than those of Category A projects. Generally, they are site-specific; few if any are irreversible; and in most cases, normal mitigation measures can be designed more readily.
 4. **Category C:** Proposed projects are classified as Category C if they are likely to have minimal or little adverse impact on the environment and society.
 5. **Category FI:** Proposed projects are classified as Category FI if they satisfy all of the following requirements: JICA's funding of projects is provided to a financial intermediary or executing agency; the selection and appraisal of the sub-projects is substantially undertaken by such an institution only after JICA's approval of the funding, so that the sub-projects cannot be specified prior to JICA's approval of funding (or project appraisal); and those sub-projects are expected to have a potential impact on the environment.
- **Article 2.8. Decision-making by JICA**
JICA takes the outcomes of its environmental reviews into account when making decisions regarding the conclusion of agreement documents. If, as a result of its environmental review, JICA decides that appropriate environmental and social considerations are not ensured, it will encourage project proponents etc. to undertake appropriate environmental and social considerations. If appropriate environmental and social considerations are not undertaken, JICA will not undertake Loan aid, grant aid, or technical cooperation projects.
- **Article 3. Procedures of Environmental and Social Considerations.**
Item (1) Preparatory Survey
JICA collects information from project proponents etc., and when necessary, it consults with project proponents etc. and conducts field surveys in order to consider the environmental and social aspects of potential projects.
JICA classifies projects into one of the aforementioned four categories, taking into account an outline of project, scale, site conditions, etc.

⁵³ Full text of the JICA's Guidelines can be obtained through; http://www.jica.go.jp/english/our_work/social_environmental/guidelines/pdf/guideline100326/pdf

➤ **Article 3. Item (2.1) Environmental Review for Loan Aid**

JICA conducts an environmental review in accordance with the project category, and refers to the corresponding environmental checklists for each sector when conducting that review as appropriate.

Category A: Project proponents etc. must submit EIA reports for Category A projects. For projects that will result in large-scale involuntary resettlement, a Resettlement Action Plan (RAP) also must be submitted. For projects that will require the measures for indigenous people, an Indigenous People Plan (IPP) must be submitted as well. Environmental reviews for Category A projects examine the potential positive and negative environmental impacts of projects. JICA examines necessary measures to avoid, minimize, mitigate, or compensate for potential negative impacts, as well as measures to promote positive impacts, if any such measures are available. JICA also examines the results of information disclosure and local stakeholder consultation.

Category B: The scope of environmental reviews for Category B projects may vary from project to project, but it is narrower than that of Category A projects. JICA undertakes its environmental reviews based on information provided by project proponents etc. and others. Environmental reviews for Category B projects examine the potential positive and negative environmental impacts and necessary measures to avoid, minimize, mitigate, or compensate for potential negative impacts, as well as measures to promote positive impacts, if any such measures are available. When an EIA procedure has been conducted, the EIA report may be referred to, but this is not a mandatory requirement.

Category C: For projects in this category, environmental review will not proceed after categorization.

Category FI: JICA examines the related financial intermediary or executing agency to see whether appropriate environmental and social considerations as stated in the guidelines are ensured for projects in this category.

➤ **Article 3. Item (2.2) Monitoring and its confirmation by JICA**

Over a certain period of time, JICA confirms with project proponents etc. the results of monitoring the items that have significant environmental impacts. This is done in order to confirm that project proponents etc. are undertaking environmental and social considerations for projects that fall under Categories A, B, and FI.

Appendix 1. Illustrative List of Sensitive Sectors, Characteristics, and Areas

1. Sensitive Sectors

Large-scale projects in the following sectors:

- (14) Mining, including oil and natural gas development
- (15) Oil and gas pipelines
- (16) Industrial development
- (17) Thermal power, including geothermal power
- (18) Hydropower, dams and reservoirs
- (19) Power transmission and distribution lines involving large-scale involuntary resettlement, large-scale logging, or submarine electrical cables
- (20) River/erosion control
- (21) Roads, railways and bridges
- (22) Airports
- (23) Ports and harbors
- (24) Water supply, sewage, and wastewater treatment that have sensitive characteristics or that are located in sensitive areas or in their vicinity
- (25) Waste management and disposal
- (26) Agriculture involving large-scale land clearing or irrigation

2. Sensitive Characteristics

- (5) Large-scale involuntary resettlement
- (6) Large-scale groundwater pumping
- (7) Large-scale land reclamation, land development and land clearing
- (8) Large-scale logging

3. Sensitive Areas

Projects in the following areas or their vicinity:

- (3) National parks, nationally-designated protected areas (coastal areas, wetlands, areas for ethnic minorities or indigenous peoples and cultural heritage, etc. designated by national governments)
- (4) Areas that are thought to require careful consideration by the country or locality

Natural Environment

- f) Primary forests or natural forests in tropical areas,
- g) Habitats with important ecological value (coral reefs, mangrove wetlands and tidal flats, etc.)
- h) Habitats of rare species that require protection under domestic legislation, international treaties, etc.
- i) Areas in danger of large-scale salt accumulation or soil erosion
- j) Areas with a remarkable tendency towards desertification

Social Environment

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

Appendix 2. Credit facilities for Industries based on the categories of Industries and business locations.

Credit facilities for Industries located in EPZs

(in Foreign Currency)

SL. No.	Type of Industry	Nature of Loan	Sources of Loan	Conditionality	Source of information	Remarks
1.	A	1. Short Term repatriable Foreign Currency Loan	Foreign Currency Loan from overseas banks/ FI/ OBU.	1. Shall be received through AD/ OBU in Bangladesh. 2. To be kept in FC A/c. 3. For financing Capital Machineries & raw material payment of interest/ service charges payment of loan & crediting taka account to meet local expenses 4. Assets fully owned by company may be hypothecated.	Bangladesh Bank Guidelines for Foreign Exchange Transactions, vol-I issued to AD on May 31,2009.	In case, the loan is called up while paying the liabilities Bangladesh Bank's approval required.
		2. Medium and Long Term External Borrowing	External Source	Subject to observance of approval procedure given in a separate page. (Bangladesh Bank FEID Circular Letter No.3/2014, Dated: 06.05.2014)	FEID Circular Letter No. 3, Dated: 06.05.2014	BEPZA & Bangladesh Bank's approval required.
2.	B	1. Short Term repatriable Foreign Currency Loan	Foreign Currency Loan from overseas banks/ FI/ OBU.	Same as above except 'B'-Type companies are not allowed to hypothecate their assets.	Same Circular as above.	Bangladesh Bank's approval required for issuing guarantee to overseas bank.
		2. Medium and Long Term External Borrowing.	External Source	1. Approval Procedure shall have to be followed. 2. BEPZA shall scrutiny the papers for onward submission to Bangladesh Bank for approval.	Bangladesh Bank Guidelines for Foreign Exchange Transactions, vol-I, instruction issued to AD on May 31, 2009. & FEID Circular Letter No. 3, Dated: 06.05.2014	BEPZA & Bangladesh Bank's approval required.

Operating Guidelines for TSL Component of
Foreign Direct Investment Promotion Project

3.	C	Medium and Long Term External Borrowing.	External Source	Subject to observance of approval procedure given in a separate page. (Bangladesh Bank FEID Circular Letter No.3/2014, Dated: 06.05.2014)	FEID Circular Letter No.3, Dated: 06.05.2014	BEPZA shall forward the case to Bangladesh Bank for approval.
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Prepared for Term & Working Capital Loan only

Credit facilities for Industries located in EPZs

(in Local Currency)

SL. No.	Type of Industry	Nature of Loan	Sources of Loan	Conditionality	Source of information	Remarks
1.	A	No access to local currency loan.				
2.	B	1. Taka loan against Short Term repatriable foreign currency loan.	Taka Currency from Local Bank.	Up to 100% of short term foreign currency loan brought in and encashed to taka for capital and machineries & setting up of industry not exceeding local partners shareholding.	Bangladesh Bank Guidelines for Foreign Exchange Transactions, Vol-I, issued to AD's on May 31, 2009.	On Banker-Customer relationship. Bangladesh Bank's approval required in case of foreign exchange required for import of machineries against taka currency.
		2. Working Capital Loan.	From its own source of local AD.	Extent of Loan to be equivalent to the value of inputs for 4 months production. The Loan to be adjusted from export receivables within shortest possible time	Bangladesh Bank Guidelines for Foreign Exchange Transactions, Vol-I, instruction issued to AD on May 31, 2009.	The loan may be granted on the basis of Banker-Customer relationships.
3.	C	1. Working Capital Loan	Own source of local AD.	Equivalent to the value of inputs for four month production, loan to be adjusted from export receivables within shortest possible time.	Bangladesh Bank Guidelines for Foreign Exchange Transactions, Vol-I, instructions to AD's made on May 31, 2009.	May be granted on the basis of Banker-Customer relationships.
		2. Term Loan (As applicable to 'C' type industries in DTA) and others.	Local Banks in local currency.	Single borrower loan I subjected to individual Bank's credit policy & guidelines.	As per concerned Bank(s) credit policy & guidelines.	Bankers-Customer relationship

Prepared for Term & Working Capital Loan only

Credit facilities for Industries Located in EPAs of EZs

(In foreign Currency)

SL. No.	Type of Industry	Nature of Loan	Sources of Loan	Conditionality	Source of information	Remarks
1.	A	1. Short Term repatriable Foreign Currency Loan	From foreign Banks/FIs in Foreign Currency	1. Loan to be received through local AD & kept in the FC Account. 2. Be used for import of capital & machinery, raw materials, payment of service charge etc. 3. Assets fully owned by the company may be hypothecated. 4. In case the loan is called up assets must be sold in foreign currency & local payment to be met first. 5. No taka loan is admissible against this loan.	Bangladesh Bank Guidelines for foreign exchange transactions, Vol-I, issued to AD's on May 31, 2009.	
		2. Medium/ Long Term External Borrowing	From External sources in Foreign Currency	Application procedure is shown in a separate page attached herewith. (Bangladesh Bank FEID Circular Letter No.3/2014, Dated: 06.05.2014)	Same rules shall prevail for EPAs of EZs is contemplated.	Bangladesh Bank & EZA shall be involved in sanctioning the Credit.
2.	B	1. Short Term repatriable Foreign Currency Loan	From foreign Banks/FIs in Foreign Currency	As above except 'B' type are not allowed to hypothecate their assets.	Same as 'A' type mentioned above	
		2. Medium/ Long Term External Borrowing	From External sources	Procedure of application is same as above.	EZs Draft Page	Bangladesh Bank & EZ Authority shall be involved in sanctioning the Credit.
3.	C	1. Medium/ Long Term external borrowings	From External Sources	Procedure of application is same as A & B shown at attached paper. (Bangladesh Bank FEID Circular Letter No.3/2014, Dated: 06.05.2014)	EZs Draft Page	

Prepared for Term & Working Capital Loan only

Credit facilities for Industries located in EPAs of EZs

(in Local Currency)

SL. No.	Type of Industry	Nature of Loan	Sources of Loan	Conditionality	Source of information	Remarks
1.	A	No access to local currency loan.				
2.	B	1. Taka loan against Short Term repatriable foreign currency loan.	Taka Currency from Local Bank.	Up to 100% of short term foreign currency loan brought in and encashed to taka for capital and machineries & setting up of industry not exceeding local partners shareholding.	Bangladesh Bank Guidelines for Foreign Exchange Transactions, Vol-I, issued to AD's on May 31, 2009.	On Banker-Customer relationship. Bangladesh Bank's approval required in case of foreign exchange required for import of machineries against taka currency.
		2. Working Capital Loan.	From its own source of local AD.	Extent of Loan to be equivalent to the value of inputs for 4 months production. The Loan to be adjusted from export receivables within shortest possible time	Bangladesh Bank Guidelines for Foreign Exchange Transactions, Vol-I, instruction issued to AD on May 31, 2009.	The loan may be granted on the basis of Banker-Customer relationships.
3.	C	1. Working Capital Loan	Own source of local AD.	Equivalent to the value of inputs for four month production, loan to be adjusted from export receivables within shortest possible time.	Bangladesh Bank Guidelines for Foreign Exchange Transactions, Vol-I, instructions to AD's made on May 31, 2009.	May be granted on the basis of Banker-Customer relationships.
		2. Term Loan (As applicable to 'C' type industries in DTA) and others	Local Banks in local currency.	Single borrower loan I subjected to individual Bank's credit policy & guidelines.	As per concerned Bank(s) credit policy & guidelines.	Bankers-Customer relationship

Prepared for Term & Working Capital Loan only

**Credit Facilities for Foreign owned/ controlled Companies operating in DTA
other than EPAs of EZs including developers of EZs**

SL. No.	Type of Industry	Nature of Loan	Sources of Loan	Conditionality	Source of information	Remarks	
1.	Foreign owned/ controlled Companies	Borrowing locally in Local Currency					
		1. Term Loan	Taka currency loan for capacity expansion/ BMRE.	1. Engaged in manufacturing or service output activities for three years or longer. 2. Total debt not exceed the 50:50 debt equity ratio. 1. 3. Prevailing credit norms including single borrower exposure limit.	Guidelines for Foreign Exchange Transactions 2009, Vol.-1, Chapter-16 and FE Circular No. 12 dated 11/03/2014.	Without prior approval of Bangladesh Bank provided conditions are properly adhered.	
		2. Working Capital Loan	Local currency from local banks for operation of business	As per prevailing credit norms and on the basis of Banker-Customer relationship	Bangladesh Bank Foreign Exchange Guidelines, Vol- I, Chapter-16, page-139.		
		Borrowing from Abroad					
		1. Short Term Borrowing/ Working Capital.	Interest free working capital form parent company/ shareholders abroad.	Business needs other than inputs procurements for which no working capital financing from local market.	FE Circular No. 13 dated 12/03/2014.	Without the approval of Bangladesh Bank.	
2. External Term Borrowing	Foreign Sources for capacity expansion/ BMRE.	Prior authorisation of Board of Investment (BoI) is required.	Guidelines for Foreign Exchange Transactions 2009, Vol.-1, Chapter-15.	Subject to Approval of BOI (Board of Investment) and Bangladesh Bank.			

2.	All companies other than Foreign owned/ controlled companies.	1. Working Capital 2. Term Borrowing	Local Banks in local currency.	As per Bank-Customer relationship & Lending Guidelines of Bangladesh Bank.	Concerned Bank(s) credit policy and guidelines.	
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Prepared for Term & Working Capital Loan only

Note:

- Type A companies means 100% foreign owned companies
- Type B companies means joint venture companies
- Type C companies means locally owned companies
- Foreign controlled companies follow the definition: An industrial unit (including EZs, other than those of export processing areas of EZs) is deemed to be controlled directly or indirectly by persons resident outside of Bangladesh: (a) if it is a branch office of a company incorporated outside Bangladesh; (b) in the case of partnership, if (i) 50% or more of the capital of the partnership is owned by foreign nationals or ,(ii) the majority of the partners are foreign nationals ; and (c) in case of companies incorporated in Bangladesh, if (i) 50% of the shares or more are owned by foreign nationals or. (ii) 50% of more of the directors in the Board of company are foreign nationals. In the case of equal share holding or equal representation on the Board of Directors, a company is deemed to be foreign controlled if its Chairman is a foreign national. (FE Circular 12, March 11, 2014, FE Circular 04 April, 2012)
- Credit facilities for Industries located in EPZs, Credit facilities for Industries located in EPAs of EZs, and Credit Facilities for Foreign owned/ controlled Companies operating in DTA other than EPAs of EZs including developers of EZs should also have conformity with, but not limited to, the following references— Guidelines for Foreign Exchange Transactions 2009 (GFET-2009), Vol. 1, Chapter-15 and 16, Section 1 and 2; FE Circular No. 4, dated 14.02.2016, FE Circular Letter No. 13, dated 12.03.2014; FEID Circular Letter No. 03/2014, dated 06.05.2014; and FE Circular No. 12, dated 11.03.2014

Project Director
Foreign Direct Investment Promotion Project (FDIPP)
Foreign Exchange Investment Department
Bangladesh Bank, Head Office, Dhaka-1000.

Dear Sir,

**Letter of Intent to become Participating Financial Institutions under JICA-
Two Step Loan Fund for refinance or pre-finance under the
“Foreign Direct Investment Promotion Project (FDIPP;BD-P86)”**

With reference to the FEID Circular no.01. 2017 dated 30.08.2017 and your letter no. FEID/FDIPP/01/ - dated .00.2017, we intend to express our interest in participating in the project. Necessary documents & information are enclosed herewith as sought in the annexure- A,B and C as per instructions laid down in the Operating Guidelines of FDIPP.

We, therefore, request you to select our Financial Institution as Participating Financial Institution (PFI) of FDIPP.

Thanking you

Truly yours,

()
Chief Executive Officer/Managing Director
Bank/Financial Institution Name

List of Documents enclosed:

01. Letter of Intent to become PFI.
02. Annex-A to Accreditation Application Form [Info. on accreditation criteria]
03. Annex-B to Accreditation Application Form [Financial Info.]
04. Latest Annual Report
05. Copy of Audited Financial statements for last 3 years
06. Annex-C: Contact details of relevant personnel
07. Copy of Credit/Lending Policy.
08. Copy of Credit Risk Management or Assessment Procedures/Guidelines
09. Copy of License for Banking issued by BB

Annexure-A: Accreditation Assessment Form

Name of Financial Institution:

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

Financial Statements

Annexure-B: Accreditation Assessment Form

Name of Bank/Financial Institutions :

[in billion taka]

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

*Provide reference date

Contact Details of Relevant Personnel

Annexure-C

Name of the Bank/Financial Institution:

Sl.	Name and Designation	Mailing Address	Electronic Communication			
			Phone Number	Fax Number	Cell phone no	Email
1.						
2.						
3.						