
LOAN NUMBER 3367-BAN

PROJECT AGREEMENT

(Second Small and Medium-Sized Enterprise Development Project)

between

ASIAN DEVELOPMENT BANK

and

BANGLADESH BANK

DATED 18 JANUARY 2017

BAN 36200

PROJECT AGREEMENT

PROJECT AGREEMENT dated 18 January 2017 between ASIAN DEVELOPMENT BANK ("ADB") and the BANGLADESH BANK ("Bangladesh Bank").

WHEREAS

(A) by a Loan Agreement of even date herewith between the People's Republic of Bangladesh ("Borrower") and ADB, ADB has agreed to make to the Borrower a loan in the amount of two hundred million Dollars (\$200,000,000) on the terms and conditions set forth in the Loan Agreement, but only on the condition that the proceeds of the Loan be made available to Bangladesh Bank and that Bangladesh Bank agrees to undertake certain obligations towards ADB as set forth in this Project Agreement; and

(B) Bangladesh Bank, in consideration of ADB entering into the Loan Agreement with the Borrower, has agreed to undertake the obligations set forth in this Project Agreement;

NOW THEREFORE the parties agree as follows:

ARTICLE I

Definitions

Section 1.01. Wherever used in this Project Agreement, unless the context otherwise requires, the terms defined in the Loan Agreement and in the Loan Regulations (as so defined) have the respective meanings therein set forth.

ARTICLE II

Use of Proceeds of the Loan

Section 2.01. Bangladesh Bank shall make available the Taka equivalent of the Loan proceeds to each PFI under a Participation Agreement upon terms and conditions satisfactory to ADB and the Borrower.

ARTICLE III

Subloans

Section 3.01. (a) Except as ADB may otherwise agree, Bangladesh Bank shall ensure that the PFIs use the Taka equivalent of the Loan proceeds for making Subloans to Qualified Enterprises, which shall be applied exclusively to the cost of Goods, Works and consulting services required to carry out the Qualified Subproject.

(b) In the carrying out of the Project, Bangladesh Bank shall ensure that the eligibility criteria with respect to the PFIs, Qualified Enterprises, Qualified Subprojects and Subloans as set out in Schedule 3 to the Loan Agreement are satisfied at all times.

(c) Except as ADB may otherwise agree, all Goods, Works and consulting services to be financed out of the proceeds of the Subloans shall be procured in accordance with the provisions of Schedule 2 to the Loan Agreement.

(d) All Subloans by the PFIs approved by Bangladesh Bank shall be subject to post-monitoring and review by ADB.

Section 3.02. Bangladesh Bank shall ensure that the PFIs provide Subloans:

- (a) using two-thirds of the Taka equivalent of the Loan proceeds (\$133.3 million equivalent), to Qualified Enterprises from the cottage, micro and small-sized segments of the SME sector (provided Qualified Enterprises that are "women-led" SMEs are given preference and the PFIs "ear-mark" 15% of the Subloans for such Qualified Enterprises, although such funds shall revert to the "general pool" for Subloans under this subparagraph if they are not utilized for "women-led" SMEs within a period of 2 years from the Effective Date); and
- (b) using the remaining one-third of the Taka equivalent of the Loan proceeds (\$66.7 million equivalent), to Qualified Enterprises from the medium-sized segment of the SME sector.

Section 3.03 Bangladesh Bank shall cause each PFI to ensure that each Subloan:

- (a) finances 90% of the cost of the Qualified Subproject with the remainder covered by the Qualified Enterprise's own contribution (for the portion of the cost financed by the Subloan, 15% of such cost is financed by the Borrower's Contribution, through Bangladesh Bank and 75% of such cost is financed by the Taka equivalent of the Loan proceeds; correspondingly, 16.7% of the Subloan is financed by the Borrower's Contribution, through Bangladesh Bank and 83.3% of the Subloan is financed by ADB);
- (b) does not exceed: (i) Taka 10 million for a Subloan to a Qualified Enterprise described in Section 3.02(a) of this Schedule to the Project

Agreement; and (ii) Taka 30 million for a Subloan to a Qualified Enterprise described in Section 3.02(b) of this Schedule to the Project Agreement; and

- (c) has a 2 to 5 year repayment term with a market-based interest rate that reflects the cost of funds plus a spread that covers transaction costs and risks, except that: (i) in the event a portion of the Subloan (not exceeding 30% of that Subloan) is used for the working capital of the Qualified Enterprise, such portion of the Subloan shall have a repayment term of 1 to 5 years; and (ii) in the event the Qualified Enterprise is a "women-led" SME, such Subloan shall have a repayment term of 1 to 5 years and an interest rate not exceeding 10%. Bangladesh Bank retains the right to reject any Subloan which interest rate it finds to be distortionary.

Section 3.04. Without limiting the provisions of Section 3.02 hereinabove and in addition to any other provisions which a prudent lender would request, each Subloan agreement shall include provisions to the effect that:

- (a) the Qualified Enterprise shall carry out and operate the Qualified Subproject with due diligence and efficiency and in accordance with sound administrative, financial, business and environmental practices, including maintenance of adequate accounts and records;
- (b) the proceeds of the Loan shall be used only for procurement with due attention to economy and efficiency and in accordance with established private sector or commercial practices, acceptable to ADB;
- (c) the Goods, Works and consulting services to be financed out of the proceeds of the Loan shall be used exclusively in the carrying out of the Qualified Subproject;
- (d) ADB, Bangladesh Bank and the PFI shall each have the right to inspect such Goods and Works, the Qualified Enterprise, the Qualified Subproject and any relevant records and documents;
- (e) the Qualified Enterprise shall take out and maintain with responsible insurers insurance against such risks and in such amounts as shall be consistent with sound business practice;
- (f) ADB, Bangladesh Bank and the PFI shall each be entitled to obtain all such information as each shall reasonably request relating to the Subloan, the Goods, Works, and consulting services financed out of the proceeds of the Loan, the Qualified Subproject, the Qualified Enterprise and other related matters; and
- (g) the PFI shall be entitled to suspend or terminate further access by the Qualified Enterprise to the use of the proceeds of the Loan upon failure by the Qualified Enterprise to perform its obligations under its agreement with the PFI.

Section 3.05. Bangladesh Bank shall ensure that each PFI promptly and effectively exercises its rights in relation to each Qualified Subproject in accordance with the standards of a prudent lender and in such manner as to protect the interests of the Borrower, Bangladesh Bank, the PFI, and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) Bangladesh Bank shall carry out the Project with due diligence and efficiency, and in conformity with sound banking, administrative, financial, environmental and business practices.

(b) In the carrying out of the Project, Bangladesh Bank shall (i) perform all its obligations set forth in the Loan Agreement and this Project Agreement; and (ii) cause the PFIs to perform all their obligations under the Participation Agreements.

Section 4.02. Upon request of the Borrower, Bangladesh Bank shall make adequate provision to protect against any loss resulting from changes in the rate of exchange between Taka and the currency or currencies in which the Borrower's outstanding money obligations have to be met.

Section 4.03. Bangladesh Bank shall ensure that a PFI does not make a Subloan to any Qualified Enterprise unless such Qualified Enterprise has at its disposal, or has made appropriate arrangements to obtain as and when required, all local currency funds, including adequate working capital, and other resources which are required by such Qualified Enterprise for the carrying out of its Qualified Subproject in respect of which the Subloan is to be made.

Section 4.04. Bangladesh Bank shall cause each PFI to maintain records and accounts adequate to record the progress of the Project and of each Qualified Subproject (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, the operations and financial condition of the PFI.

Section 4.05. (a) Bangladesh Bank shall furnish to ADB all such reports and information as ADB shall reasonably request concerning (i) the Loan and the expenditure of the proceeds thereof; (ii) the Project; (iii) the Qualified Enterprises, the Qualified Subprojects and the Subloans; (iv) the administration, operations and financial condition of Bangladesh Bank and the PFIs; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, Bangladesh Bank shall furnish to ADB quarterly reports on the execution of the Project. Such reports shall be submitted in such form and in such detail and within such a period as ADB shall reasonably request, and shall indicate, among other things, progress made and problems encountered during the period under review, steps taken or proposed to be taken to remedy these problems, and proposed program of activities and expected progress during the following 3 months.

(c) Promptly after the closing date for withdrawals from the Loan Account, but in any event not later than 3 months after the said closing date or such later date as ADB may agree for this purpose, Bangladesh Bank shall prepare and furnish through the Borrower to ADB a report, in such form and in such detail as ADB shall reasonably request, on the utilization of the Loan, the execution of the Qualified Subprojects, their costs, the performance by Bangladesh Bank of its obligations under this Project Agreement, the performance by the PFIs under the Participation Agreements and the accomplishment of the purposes of the Loan.

Section 4.06. (a) ADB and Bangladesh Bank shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) Bangladesh Bank shall promptly inform ADB of any condition which interferes with, or threatens to interfere with, the progress of the Project, the performance of its obligations under this Project Agreement or the Participation Agreements, or the accomplishment of the purposes of the Loan.

(c) ADB and Bangladesh Bank shall from time to time, at the request of either party, exchange views through their representatives with regard to any matters relating to the Project, Bangladesh Bank and the Loan.

Section 4.07. (a) Bangladesh Bank shall (i) maintain separate accounts and records for the Project; (ii) prepare annual financial statements for the Project in accordance with accounting principles acceptable to ADB; (iii) have such financial statements audited annually by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB, in accordance with international standards for auditing or the national equivalent acceptable to ADB; (iv) as part of each such audit, have the auditors prepare a report (which includes the auditors' opinion on the financial statements, use of loan proceeds and compliance with the financial covenants) and a management letter (which sets out the deficiencies in the internal control of the Project that were identified in the course of the audit, if any) ;and (v) furnish to ADB, no later than 6 months after the end of each related fiscal year, copies of such audited financial statements, audit report and management letter, all in the English language, and such other information concerning these documents and the audit thereof as ADB shall from time to time reasonably request.

(b) ADB shall disclose the annual audited financial statements for the Project and the opinion of the auditors on the financial statements within 30 days of the date of their receipt by posting them on ADB's website.

(c) Bangladesh Bank shall enable ADB, upon ADB's request, to discuss the financial statements for the Project and Bangladesh Bank's financial affairs where they relate to the Project with the the auditors appointed pursuant to subsection (a)(iii) hereabove, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB. This is provided that such discussions shall be conducted only in the presence of an authorized officer of Bangladesh Bank unless Bangladesh Bank shall otherwise agree.

Section 4.08. Bangladesh Bank shall enable, and cause each PFI to enable, ADB's representatives to inspect any Qualified Enterprise, any Qualified Subproject,

the Goods and Works financed out of the proceeds of the Loan, and any relevant records and documents.

Section 4.09. Bangladesh Bank shall, promptly as required, take all action within its powers to maintain its statutory existence, to carry on its operations, and to acquire, maintain and renew all rights, properties, powers, privileges and franchises which are necessary in the carrying out of the Project or in the conduct of its business.

Section 4.10. Bangladesh Bank shall cause each of its divisions or departments to observe and perform the obligations of Bangladesh Bank under this Project Agreement to the extent to which such obligations may be applicable thereto.

Section 4.11. Except as ADB may otherwise agree, Bangladesh Bank shall duly perform all its obligations under the Administration Agreement and shall not take, or concur in, any action which would have the effect of assigning, amending, abrogating or waiving any rights or obligations of the parties under the Administration Agreement.

ARTICLE V

Effective Date; Termination

Section 5.01. This Project Agreement shall come into force and effect on the date on which the Loan Agreement shall come into force and effect. ADB shall promptly notify Bangladesh Bank of such date.

Section 5.02. (a) This Project Agreement and all obligations of the parties hereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Loan Agreement shall terminate in accordance with its terms; or
- (ii) a date 20 years after the date of this Project Agreement.

(b) If the Loan Agreement terminates in accordance with its terms before the date specified in sub-paragraph (a)(ii) of this Section, ADB shall promptly notify Bangladesh Bank of this event.

Section 5.03. All the provisions of this Project Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the Loan Agreement.

ARTICLE VI**Miscellaneous**

Section 6.01. Any notice or request required or permitted to be given or made under this Project Agreement and any agreement between the parties contemplated by this Project Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail or facsimile to the party to which it is required or permitted to be given or made at its address hereinafter specified, or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For ADB

Asian Development Bank
P.O. Box 789
0980 Manila, Philippines

Facsimile Numbers:

632 636 2444
632 636 2337

For Bangladesh Bank

SME and Special Programs Department
Bangladesh Bank, Head Office
Motijheel C/A, Dhaka 1000
Bangladesh

Facsimile Number:

880 2 9512991.

Section 6.02. (a) Any action required or permitted to be taken, and any documents required or permitted to be executed, under this Project Agreement or under Section 7.01 of the Loan Agreement by or on behalf of Bangladesh Bank may be taken or executed by its Governor or by such other person or persons as he shall so designate in writing notified to ADB.

(b) Bangladesh Bank shall furnish to ADB sufficient evidence of the authority of each person who will act under paragraph (a) of this Section, together with the authenticated specimen signature of each such person.


Section 6.03. No delay in exercising, or omission to exercise, any right, power or remedy accruing to either party under this Project Agreement upon any default shall impair any such right, power or remedy or be construed to be a waiver thereof or an acquiescence in such default; nor shall the action of such party in respect of any default, or any acquiescence in any default, affect or impair any right, power or remedy of such party in respect of any other or subsequent default.

IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Project Agreement to be signed in their respective names and to be delivered at the principal office of ADB, as of the day and year first above written.

ASIAN DEVELOPMENT BANK

By  _____
KAZUHIKO HIGUCHI
Country Director
Bangladesh Resident Mission

BANGLADESH BANK

By  _____
NURUN NAHAR
General Manager