
LOAN NUMBER 3367-BAN

LOAN AGREEMENT
(Ordinary Operations)

(Second Small and Medium-Sized Enterprise Development Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

ASIAN DEVELOPMENT BANK

DATED 18 JANUARY 2017

BAN 36200

**LOAN AGREEMENT
(Ordinary Operations)**

LOAN AGREEMENT dated 18 January 2017 between PEOPLE'S REPUBLIC OF BANGLADESH ("Borrower") and ASIAN DEVELOPMENT BANK ("ADB").

WHEREAS

(A) the Borrower has applied to ADB for a loan for the purposes of the Project described in Section 3.01 of this Loan Agreement;

(B) the Project will be carried out by the Bank and Financial Institutions Division of the Ministry of Finance of the Borrower through Bangladesh Bank, and for this purpose the Borrower will make available to Bangladesh Bank the proceeds of the loan provided for herein upon terms and conditions satisfactory to ADB; and

(C) ADB has agreed to make a loan to the Borrower from ADB's ordinary capital resources upon the terms and conditions set forth herein and in the Project Agreement of even date herewith between ADB and Bangladesh Bank;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of the Ordinary Operations Loan Regulations Applicable to LIBOR-Based Loans Made from ADB's Ordinary Capital Resources, dated 1 July 2001 ("Loan Regulations"), are hereby made applicable to this Loan Agreement with the same force and effect as if they were fully set forth herein, subject, however, to the following modifications:

(a) Section 2.01(50) is deleted and the following is substituted therefor:

"Project Agreement" means the Project Agreement of even date herewith between ADB and Bangladesh Bank.

(b) The term "Project Executing Agency" appearing in Section 7.04(b), 9.01(d), 9.01(f), 9.01(k), 10.01(c) and 10.02(c) of the Loan Regulations shall be substituted by the term "Bangladesh Bank".

(c) Section 3.03 is deleted and the following is substituted therefor:

Commitment Charge; Credit. (a) The Borrower shall pay a commitment charge on the unwithdrawn amount of the Loan at the rate and on the terms specified in the Loan Agreement.

(b) ADB shall provide to the Borrower a credit at the rate specified in the Loan Agreement, which credit shall remain fixed for the term of the Loan. ADB shall apply the credit against the interest payable by the Borrower.

(d) Section 3.06 is deleted and the following is substituted therefor:

Rebate. (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be reduced, ADB shall provide a Rebate to any Borrower with an outstanding Loan on which a higher Fixed Spread is applicable. The amount of the Rebate shall be determined by multiplying (i) the difference between the Fixed Spread applicable to the outstanding Loan and the Fixed Spread that will be applied to new Loans (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the lower Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB achieving savings, ADB shall provide a Rebate to the Borrower. The amount of the Rebate shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall apply the amount of the Rebate against the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

(e) Section 3.07 is deleted and the following is substituted therefor:

Surcharge. (a) Following any announcement by ADB that the Fixed Spread applicable to new Loans shall be increased, any Borrower with an outstanding Loan on which a lower Fixed Spread is applicable shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the difference between the Fixed Spread that will be applied to new Loans and the Fixed Spread applicable to the outstanding Loan (expressed as a percentage per annum), by (ii) the principal amount of the outstanding Loan on which the Borrower shall pay interest for all interest periods commencing on and after the effective date of the higher Fixed Spread that will be applied to new Loans.

(b) Following any announcement by ADB that its Funding Cost Margin calculations with respect to any Loan Currency (or Approved Currency) in any Semester resulted in ADB incurring additional costs, the Borrower shall pay ADB a Surcharge. The amount of the Surcharge shall be determined by multiplying (i) the Funding Cost Margin (expressed as a percentage per annum) by (ii) the principal amount of the Loan on which the Borrower shall pay interest for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated. ADB shall add the amount of the Surcharge to the interest payable by the Borrower for the Interest Period commencing immediately after the Semester for which the Funding Cost Margin was calculated.

Section 1.02. Wherever used in this Loan Agreement, the several terms defined in the Loan Regulations have the respective meanings therein set forth unless modified herein or the context otherwise requires. Additional terms used in this Loan Agreement have the following meanings:

(a) "Bangladesh Bank" means the central bank of the Borrower established pursuant to the Bangladesh Bank Order 1972 or any successor thereto;

(b) "BFID" means the Bank and Financial Institutions Division of MOF or any successor thereto;

(c) "Consulting Guidelines" means the Guidelines on the Use of Consultants by Asian Development Bank and its Borrowers (2013, as amended from time to time);

(d) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, including related services such as transportation, insurance, installation, commissioning, training, and initial maintenance, but excluding consulting services;

(e) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2015, as amended from time to time);

(f) "MOF" means the Ministry of Finance of the Borrower or any successor thereto;

(g) "PAM" means the project administration manual for the Project dated 26 October 2015 and agreed between the Borrower, Bangladesh Bank and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower, Bangladesh Bank and ADB;

(h) "Participation Agreement" means each agreement between Bangladesh Bank and a PFI pursuant to which the PFI shall onlend the proceeds of the Loan to a Qualified Enterprise for a Qualified Subproject;

(i) "PFI" means each of the participating financial institutions, which satisfies the eligibility criteria set out in paragraph 4 of Schedule 3 to this Loan Agreement;

(j) "Procurement Guidelines" means ADB's Procurement Guidelines (2015, as amended from time to time);

(k) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means the Banking and Financial Institutions Division of the MOF, which is responsible for the carrying out of the Project;

(l) "Qualified Enterprise" means each enterprise, which satisfies the eligibility criteria set out in paragraph 6 of Schedule 3 to this Loan Agreement;

(m) "Qualified Subproject" means each subproject, which satisfies the eligibility criteria set out in paragraph 8 of Schedule 3 to this Loan Agreement and to be carried out by a Qualified Enterprise;

(n) "SPS" means ADB's Safeguard Policy Statement (2009);

(o) "SME" means a small and medium-sized enterprise;

(p) "Subloan" means each loan made, or proposed to be made, by a PFI based on the terms set out in paragraph 9 of Schedule 3 to this Loan Agreement to a Qualified Enterprise for a Qualified Subproject;

(q) "Subsidiary Loan Agreement" means the agreement between the Borrower and Bangladesh Bank pursuant to which Bangladesh Bank will make available the proceeds of the loan to the PFIs;

(r) "Taka" means the currency of the Borrower; and

(s) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including services such as drilling or mapping, and project related services that are provided as part of a single responsibility or turnkey contract, but excluding consulting services.

ARTICLE II

The Loan

Section 2.01. (a) ADB agrees to lend to the Borrower from ADB's ordinary capital resources an amount of two hundred million Dollars (\$200,000,000), as such amount may be converted from time to time through a Currency Conversion in accordance with the provisions of Section 2.06 of this Loan Agreement.

(b) The Loan has a principal repayment period of 15 years, and a grace period as defined in subsection (c) hereinafter.

(c) The term "grace period" as used in subsection (b) hereinabove means the period prior to the first Principal Payment Date in accordance with the amortization schedule set forth in Schedule 1 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB interest on the principal amount of the Loan withdrawn and outstanding from time to time at a rate for each Interest Period equal to the sum of:

- (a) LIBOR; and
- (b) 0.60% as provided by Section 3.02 of the Loan Regulations less a credit of 0.10% as provided by Section 3.03 of the Loan Regulations.

Section 2.03. The Borrower shall pay a commitment charge of 0.15% per annum. Such charge shall accrue on the full amount of the Loan (less amounts withdrawn from time to time), commencing 60 days after the date of this Loan Agreement.

Section 2.04. Interest and other charges on the Loan shall be payable semiannually on 1 June and 1 December in each year.

Section 2.05. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the provisions of Schedule 1 to this Loan Agreement.

Section 2.06. (a) The Borrower may at any time request any of the following Conversions of the terms of the Loan in order to facilitate prudent debt management:

- (i) a change of the Loan Currency of all or any portion of the principal amount of the Loan, whether withdrawn and outstanding or unwithdrawn, to an Approved Currency;
- (ii) a change of the interest rate basis applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding from a Floating Rate to a Fixed Rate, or vice versa; and
- (iii) the setting of limits on the Floating Rate applicable to all or any portion of the principal amount of the Loan withdrawn and outstanding by the establishment of an Interest Rate Cap or Interest Rate Collar on said Floating Rate.

(b) Any conversion requested pursuant to subsection (a) hereinabove that is accepted by ADB shall be considered a "Conversion", as defined in Section 2.01(6) of the Loan Regulations, and shall be effected in accordance with the provisions of Article V of the Loan Regulations and the Conversion Guidelines.

ARTICLE III

Description of Project; Use of Proceeds of the Loan

Section 3.01. The Project for which the Loan is made is the financing by the Borrower of specific SME subprojects by causing the PFIs to make Subloans to Qualified Enterprises (including to Qualified Enterprises that are grouped or organized as "clusters" or "estates" under the SME sector) for Qualified Subprojects, outside the Dhaka and Chittagong metropolitan areas in accordance with this Loan Agreement and the Project Agreement.

Section 3.02. (a) The Borrower shall make available the Taka equivalent of the Loan proceeds to Bangladesh Bank under a Subsidiary Loan Agreement on terms and conditions satisfactory to ADB. The Borrower shall bear the foreign exchange risk in respect thereof.

(b) Bangladesh Bank shall onlend the Taka equivalent of the Loan proceeds, together with its counterpart contribution of \$40 million equivalent for the purposes of the Project, to the PFIs, each under a Participation Agreement, and cause the PFIs to apply such funds to the financing of expenditures for the Project in accordance with this Loan Agreement and the Project Agreement.

Section 3.03. (a) The proceeds of the Loan shall be applied exclusively to the cost of Goods, Works, consulting services and other items of expenditure required to carry out such Qualified Subprojects.

(b) Except as ADB may otherwise agree, the Borrower shall procure, or cause to be procured, all Goods, Works and consulting services in accordance with the provisions of Schedule 2 to this Loan Agreement.

Section 3.04. The Loan Closing Date for the purposes of Section 9.02 of the Loan Regulations shall be 30 June 2021 or such other date as may from time to time be agreed between the Borrower and ADB.

ARTICLE IV

Particular Covenants

Section 4.01. (a) The Borrower shall cause Bangladesh Bank to carry out the Project with due diligence and efficiency and in conformity with sound applicable technical, financial, business and development practices.

(b) In the carrying out of the Project, the Borrower shall perform, or cause to be performed, all the obligations set forth in Schedule 3 to this Loan Agreement and the Project Agreement.

Section 4.02. In addition to the reports and information set forth in Section 7.04 of the Loan Regulations, the Borrower shall furnish, or cause to be furnished, to ADB all such reports and information as ADB shall reasonably request concerning (a) the Qualified Enterprises, the Qualified Subprojects and the Subloans; and (b) the administration, operations and financial condition of the PFIs.

Section 4.03. The Borrower shall enable ADB's representatives to inspect any Qualified Enterprise, any Qualified Subproject, the Goods and Works, and any relevant records and documents maintained by Bangladesh Bank and the PFIs.

Section 4.04. The Borrower shall promptly take all action, including the provision of funds, facilities, services and other resources, which shall be necessary on its part to enable Bangladesh Bank to perform its obligations under the Project Agreement, and shall not take or permit any action which would interfere with the performance of such obligations.

Section 4.05. (a) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such a manner as to protect the interests of the Borrower and ADB and to accomplish the purposes of the Loan.

(b) No rights or obligations under the Subsidiary Loan Agreement shall be assigned, amended, abrogated or waived without the prior concurrence of ADB.

ARTICLE V

Suspension; Acceleration of Maturity

Section 5.01. The following are specified as additional events for suspension of the right of the Borrower to make withdrawals from the Loan Account for the purposes of Section 9.01(l) of the Loan Regulations:

- (a) Bangladesh Bank shall have failed to perform any of its obligations under the Subsidiary Loan Agreement, including failure to remedy any default within 30 days of the date of such default; and
- (b) Any PFI shall have failed to perform any of its obligations under the Participation Agreement, including failure to remedy any default within 30 days of the date of such default.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 9.07(a)(iv) of the Loan Regulations: any of the events mentioned in Section 5.01 of this Loan Agreement shall have occurred.

ARTICLE VI**Effectiveness**

Section 6.01. The following is specified as an additional condition to the effectiveness of this Loan Agreement for the purposes of Section 10.01(f) of the Loan Regulations: the Subsidiary Loan Agreement, in form and substance satisfactory to ADB, shall have been duly executed and delivered on behalf of the Borrower and Bangladesh Bank, and shall have become effective and binding upon the Borrower and Bangladesh Bank, respectively, in accordance with its terms, subject only to the effectiveness of this Loan Agreement.

Section 6.02. The following is specified as an additional matter, for the purposes of Section 10.02(d) of the Loan Regulations, to be included in the opinion or opinions to be furnished to ADB: the Subsidiary Loan Agreement has been duly authorized or ratified by, and executed and delivered on behalf of, the Borrower and Bangladesh Bank, and is legally binding upon the Borrower and Bangladesh Bank, respectively, in accordance with its terms.

Section 6.03. A date 90 days after the date of this Loan Agreement is specified for the effectiveness of the Loan Agreement for the purposes of Section 10.04 of the Loan Regulations.

ARTICLE VII**Delegation of Authority**

Section 7.01. The Borrower hereby designates Bangladesh Bank as its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.03 and 3.06 of this Loan Agreement and under Sections 6.01, 6.02, 6.03 and 6.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by Bangladesh Bank pursuant to the authority conferred under Section 7.01 of this Loan Agreement shall be fully binding on the Borrower and shall have the same force and effect as if taken by the Borrower.

Section 7.03. The authority conferred on Bangladesh Bank under Section 7.01 of this Loan Agreement may be revoked or modified by agreement between the Borrower and ADB.

ARTICLE VIII**Miscellaneous**

Section 8.01. Each of the Senior Secretary, Secretary, Additional Secretary, Joint Secretary, Joint Chief, Deputy Secretary or Deputy Chief of the Economic Relations Division of the MOF is designated as representative of the Borrower for the purposes of Section 12.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 12.01 of the Loan Regulations:

For the Borrower

Economic Relations Division
Ministry of Finance
Government of the People's Republic of Bangladesh
Sher-e-Bangla Nagar
Dhaka 1207
Bangladesh

Facsimile Number:

+880 2 918 0788

For ADB


Asian Development Bank
6 ADB Avenue
Mandaluyong City
1550 Metro Manila
Philippines

Facsimile Numbers:

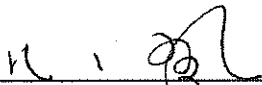
(632) 636-2444
(632) 636-2293.

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

PEOPLE'S REPUBLIC OF
BANGLADESH

By 
KAZI SHAFIQU L AZAM
Secretary (In charge)
Economic Relations Divisions

ASIAN DEVELOPMENT BANK

By 
KAZUHIKO HIGUCHI
Country Director
Bangladesh Resident Mission

SCHEDULE 1

Amortization Schedule

(Second Small and Medium-Sized Enterprise Development Project)

1. The following table sets forth the Principal Payment Dates of the Loan and the percentage of the total principal amount of the Loan payable on each Principal Payment Date (Installment Share). If the proceeds of the Loan shall have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined by ADB by multiplying: (a) the total principal amount of the Loan withdrawn and outstanding as of the first Principal Payment Date; by (b) the Installment Share for each Principal Payment Date, such repayment amount to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

<u>Payment Due</u>	<u>Installment Share</u> (Expressed as a %)
1 June 2021	3.333333
1 December 2021	3.333333
1 June 2022	3.333333
1 December 2022	3.333333
1 June 2023	3.333333
1 December 2023	3.333333
1 June 2024	3.333333
1 December 2024	3.333333
1 June 2025	3.333333
1 December 2025	3.333333
1 June 2026	3.333333
1 December 2026	3.333333
1 June 2027	3.333333
1 December 2027	3.333333
1 June 2028	3.333333
1 December 2028	3.333333
1 June 2029	3.333333
1 December 2029	3.333333
1 June 2030	3.333333
1 December 2030	3.333333
1 June 2031	3.333333
1 December 2031	3.333333
1 June 2032	3.333333
1 December 2032	3.333333
1 June 2033	3.333333
1 December 2033	3.333333
1 June 2034	3.333333
1 December 2034	3.333333
1 June 2035	3.333333
1 December 2035	<u>3.333343</u>
TOTAL	100.000000

2. If the proceeds of the Loan shall not have been fully withdrawn as of the first Principal Payment Date, the principal amount of the Loan repayable by the Borrower on each Principal Payment Date shall be determined as follows:

(a) To the extent that any proceeds of the Loan shall have been withdrawn as of the first Principal Payment Date, the Borrower shall repay the amount withdrawn and outstanding as of such date in accordance with paragraph 1 of this Schedule.

(b) Any withdrawal made after the first Principal Payment Date shall be repaid on each Principal Payment Date falling after the date of such withdrawal in amounts determined by ADB by multiplying the amount of each such withdrawal by a fraction, the numerator of which shall be the original Installment Share specified in the table in paragraph 1 of this Schedule for said Principal Payment Date (the Original Installment Share) and the denominator of which shall be the sum of all remaining Original Installment Shares for Principal Payment Dates falling on or after such date, such repayment amounts to be adjusted, as necessary, to deduct any amounts referred to in paragraph 4 of this Schedule, to which a Currency Conversion applies.

3. Withdrawals made within two calendar months prior to any Principal Payment Date shall, for the purposes solely of calculating the principal amounts payable on any Principal Payment Date, be treated as withdrawn and outstanding on the second Principal Payment Date following the date of withdrawal and shall be repayable on each Principal Payment Date commencing with the second Principal Payment Date following the date of withdrawal.

4. Notwithstanding the provisions of paragraphs 1 and 2 of this Schedule, upon a Currency Conversion of all or any portion of the withdrawn principal amount of the Loan to an Approved Currency, the amount so converted in said Approved Currency that shall be repayable on any Principal Payment Date occurring during the Conversion Period, shall be determined by ADB by multiplying such amount in its currency of denomination immediately prior to said Conversion by either: (i) the exchange rate that reflects the amounts of principal in said Approved Currency payable by ADB under the Currency Hedge Transaction relating to said Conversion; or (ii) if ADB so determines in accordance with the Conversion Guidelines, the exchange rate component of the Screen Rate.

5. If the principal amount of the Loan withdrawn and outstanding from time to time shall be denominated in more than one Loan Currency, the provisions of this Schedule shall apply separately to the amount denominated in each Loan Currency, so as to produce a separate amortization schedule for each such amount.

SCHEDULE 2**Procurement of Goods, Works and Consulting Services**General

1. The procurement of Goods, Works and consulting services shall be subject to and governed by applicable provisions of the Procurement Guidelines, and the Consulting Guidelines, respectively.
2. All terms used in this Schedule and not otherwise defined in this Loan Agreement have the meanings provided in the Procurement Guidelines and/or the Consulting Guidelines, as applicable.

Procurement

3. The Borrower shall cause Bangladesh Bank to ensure that each PFI requires the Qualified Enterprise undertakes procurement of Goods, Works, and consulting services with due attention to economy and efficiency and in accordance with established private sector or commercial practices, acceptable to ADB.

Industrial or Intellectual Property Rights

4. (a) The Borrower shall cause Bangladesh Bank and each PFI to ensure that all Goods and Works procured by the Qualified Enterprise (including without limitation all computer hardware, software and systems, whether separately procured or incorporated within other goods and services procured) do not violate or infringe any industrial property or intellectual property right or claim of any third party.

(b) The Borrower shall cause Bangladesh Bank and each PFI to ensure that all contracts entered into by the Qualified Enterprise for the procurement of Goods and Works contain appropriate representations, warranties and, if appropriate, indemnities from the contractor or supplier with respect to the matters referred to in subparagraph (a) hereinabove.
5. The Borrower shall cause Bangladesh Bank and each PFI to ensure that all ADB-financed contracts entered into by the Qualified Enterprise with consultants contain appropriate representations, warranties and, if appropriate, indemnities from the consultants to ensure that the consulting services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.

SCHEDULE 3**Execution of Project; Financial Matters**Implementation Arrangements

1. The Borrower and Bangladesh Bank shall ensure that the Project is implemented in accordance with the detailed arrangements set forth in the PAM. Any subsequent change to the PAM shall become effective only after approval of such change by the Borrower, Bangladesh Bank and ADB. In the event of any discrepancy between the PAM and this Loan Agreement and the Project Agreement, the provisions of this Loan Agreement and the Project Agreement shall prevail.

Condition for Withdrawal

2. No withdrawal shall be made from the Loan Account until Bangladesh Bank has ensured compliance with the eligibility criteria for the relevant PFIs and entered into Participation Agreements with such PFIs, as described in paragraphs 4 and 5 of this Schedule 3 to the Loan Agreement.

Counterpart Support

3. The Borrower shall cause Bangladesh Bank to make available counterpart contributions for the Project.

PFI Eligibility Criteria

4. The Borrower shall cause Bangladesh Bank to ensure that each PFI satisfy and maintain the following eligibility criteria:

- (a) a strong focus and track record in SME sector lending, including outside Dhaka and Chittagong metropolitan areas;
- (b) the prudential requirements of Bangladesh Bank, particularly those relating to: (i) the minimum ratio of total capital to risk-weighted assets of at least 10% for banks and non-bank financial institutions; (ii) the respective minimum capital requirements for banks and non-bank financial institutions; (iii) the minimum ratio of tier one capital to total capital of at least 50% for banks; (iv) the maximum single person or group counterparty exposure of 35% or less for banks; (v) the maximum aggregate outstanding amount of funded exposures of 15% or less for banks and non-bank financial institutions; (vi) the limits on large loans for banks; and (vii) the capital conservation buffer for banks and non-bank financial institutions; (viii) corporate governance; and (ix) combating money laundering and financing of terrorism, as may be updated by Bangladesh Bank from time to time;
- (c) a minimum credit rating of at least BBB- under the national rating scale by any credit rating agency approved by Bangladesh Bank and acceptable to ADB;

- (d) a minimum rating of 3 or better on the CAMELS-based assessment carried out by Bangladesh Bank;
- (e) a demonstrated capability for risk management with adequate processes and procedures covering credit risks, asset liability risks and operational risks;
- (f) ADB's financial and integrity due diligence requirements;
- (g) the commitment to utilize the minimum of \$5 million equivalent over 2 years for the purposes of the Project (such 2 years to commence from the effective date of the relevant Participation Agreement); and
- (h) assigned staff to screen prospective Qualified Subprojects using the environmental and social safeguards checklist from Appendix 2 of the PAM.

5. ADB shall confirm the participation of each PFI in the Project, in consultation with Bangladesh Bank, based on its assessment of the PFI's compliance with the eligibility criteria described in paragraph 4 of this Schedule 3 to the Loan Agreement. Further to such confirmation, Bangladesh Bank shall enter into a Participation Agreement with such PFI. Such Participation Agreement is based on a standard form developed by Bangladesh Bank for the Project and acceptable to ADB.

Qualified Enterprise

6. The Borrower shall cause Bangladesh Bank to ensure that each Qualified Enterprise (a) is a "start-up" SME or an existing SME undertaking expansion or modernization; and (b) is economically and financially viable. Such Qualified Enterprise is considered a "women-led SME" if: (a) women are the owners or proprietors of a privately-run firm or own at least a 51% share in a joint venture vehicle or a company listed with the Office of the Registrar of Joint Stock Companies and Firms; or (b) at least 60% of its managerial staff are women.

7. The Borrower shall cause Bangladesh Bank to 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.

Qualified Subproject

8. The Borrower shall cause Bangladesh Bank to ensure that each Qualified Subproject:
- (a) is located outside the Dhaka and Chittagong metropolitan areas;
 - (b) is for activities that have minimal or no adverse environmental or social impacts under SPS (for the avoidance of doubt, activities with environmental, involuntary resettlement or indigenous peoples impact and classified as Category A or B pursuant to SPS are excluded under the Project); and
 - (c) does not entail any activities that are included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

Subloan

9. The Borrower shall cause Bangladesh Bank 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 sub-paragraph (7)(a) of this Schedule to the Loan Agreement; and (ii) Taka 30 million for a Subloan to a Qualified Enterprise described in sub-paragraph 7(b) of this Schedule to the Loan 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.

Reflows from PFIs

10. Further to full disbursement of the Taka equivalent of the Loan proceeds during the course of Project implementation, any reflows from the repaid Subloans will be returned to Bangladesh Bank. At that stage, the PFIs can apply to Bangladesh Bank for

funds to be used for making new loans in the SME sector for a further period of 10 years. Bangladesh Bank shall establish a special revolving funds account, and enter into agreements with such PFIs, for this arrangement.

Gender and Development

11. The Borrower shall cause Bangladesh Bank to ensure that: (a) the gender action plan is implemented in accordance with its terms; (b) adequate resources are allocated for implementation of the gender action plan; and (c) progress on implementation of the gender action plan, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB.

Governance and Anticorruption

12. The Borrower and Bangladesh Bank shall: (a) comply with ADB's Anticorruption Policy (1998, as amended to date) and acknowledge that ADB reserves the right to investigate directly, or through its agents, any alleged corrupt, fraudulent, collusive or coercive practice relating to the Project; and (b) cooperate with any such investigation and extend all necessary assistance for satisfactory completion of such investigation.

Combating Money Laundering and Financing of Terrorism

13. The Borrower shall cause Bangladesh Bank to ensure that the PFIs:
- (a) comply with applicable laws and regulations of the Borrower on combating money laundering and financing of terrorism and that Loan proceeds are not used, directly or indirectly, in money laundering or financing of terrorism;
 - (b) formulate and implement internal control procedures, including customer due diligence procedures, to prevent violation of subparagraph (a) hereinabove; and
 - (c) promptly informs Bangladesh Bank and ADB if there is any violation or potential violation of subparagraph (a) hereinabove. In the event that ADB informs Bangladesh Bank of its concern that there has been such an alleged violation, Bangladesh Bank shall: (i) cooperate in good faith with ADB and its representatives so that ADB can determine whether such a violation has occurred; (ii) respond promptly and in reasonable detail to any query from ADB; and (iii) furnish documentary support for such response upon ADB's request.

Disbursement Procedures

14. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook. ADB shall finance 83.3% of the expenditures claimed under each Subloan.