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**PROJECT ADMINISTRATION MEMORANDUM**

**ON**

**LOAN 2149-BAN**

**TO THE**

**PEOPLE'S REPUBLIC OF BANGLADESH**

**FOR THE**

**SMALL AND MEDIUM ENTERPRISE SECTOR DEVELOPMENT PROGRAM**

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*This Project Administration Memorandum (PAM)  
provides a practical implementation manual for the  
SMESDP, with particular reference to the project loan.*

**September 2005**

**CURRENCY EQUIVALENTS**

(as of September 2005)

Currency Unit	–	Bangladesh Taka (Tk)
Tk1.00	=	\$0.0153
\$1.00	=	Tk65.56

**ABBREVIATIONS**

ADB	–	Asian Development Bank
BB	–	Bangladesh Bank
CPCU	–	central program coordination unit
FI	–	financial institution
FIL	–	financial intermediation lending
MOF	–	Ministry of Finance
MOF-FD	–	Finance Division of Ministry of Finance
MOI	–	Ministry of Industries
PFI	–	participating financial institution
SEF	–	Small Enterprise Fund
SME	–	small and medium enterprise
SMESDP	–	SME Sector Development Program
SOE	–	statement of expenditures
TA	–	technical assistance
WB	–	World Bank
W/A	–	withdrawal application

**NOTES**

- (i) The fiscal year (FY) of the Government ends on 30 June. FY before a calendar year denotes the year in which the fiscal year ends.
- (ii) In this report, "\$" refers to US dollars.

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**LOAN PROCESSING HISTORY**

<b>Milestones</b>	<b>Dates</b>
Reconnaissance/Pre-Fact Finding Missions	14-27 Jul 2003 20 Sep – 06 Oct 2003
Fact Finding Mission	29 Feb –10 Mar 2004
1 <sup>st</sup> Management Review Meeting	16 Jul 2004
Appraisal Mission	06 – 22 Sep 2004
2 <sup>nd</sup> Management Review Meeting	05 Nov 2004
Loan Negotiations	20-21 Nov 2004
Board Consideration and Approval	20 Dec 2004
Loan Agreement Signing	26 Jan 2005
Loan Effectiveness	20 Jun 2005

## I. PROJECT DESCRIPTION

### A. Objectives and Scope

1. The project loan is to enhance access to credit by SMEs, especially small enterprises referred to in Bangladesh as the “missing middle.” These enterprises are too large to qualify for microcredit assistance programs of the Government but too small to be within the scope of current bank lending. The loan proceeds will be used as contribution to the Small Enterprise Fund (SEF), which was set up by Bangladesh Bank (BB) as a credit facility available to small enterprises with fixed assets of less than Tk10 million. The World Bank has also contributed to the SEF. SEF will be administered by BB for channeling credit through participating financial institutions (PFIs) to these small enterprises designed to contribute to economic growth and poverty reduction.

### B. Project Components and Outputs

#### a. Small Enterprise Fund

2. Market and policy failures in the financial sector are being addressed through various loan and TA projects on the reform of the Bangladesh financial sector funded by ADB and other development partners. However, the development of an appropriate legal framework as well as capacity building of the regulator and market players will take time. The Bangladesh credit market suffers from a dearth of medium- to long-term funds and does not allocate funds efficiently. Some financial institutions (FIs), which are keen to lend to SMEs, are constrained by the limited availability of term funds at reasonable costs while others are reluctant to expand their SME loan portfolio due to perceived higher credit risk and administrative costs of dealing with small borrowers. To encourage FIs to extend credit to SMEs, the Government has allocated Tk1 billion from the Rural-based Agro Processing Industries Refinancing Facility to establish SEF as a credit facility to be managed by BB for refinancing loans to small enterprises lent by banks and nonbank FIs.

3. To support the government initiative in this regard, the project loan of SDR19.908 million (\$30 million equivalent) will be used as a contribution to SEF. WB has contributed \$10 million equivalent to SEF under its Enterprise Growth and Bank Modernization project. SEF will enhance access to credit by small enterprises in the “missing middle” between micro and medium enterprises. Eligible enterprises will have fixed assets of not more than Tk10 million and will not be in the exclusion list that covers tobacco, alcoholic drinks, armaments, and other ineligible items (Appendix 1). While the overall financing gap of the SME sector is large, the problem of lack of access to credit is more pronounced for this segment of SMEs. Under SEF, these enterprises can apply for loans in the range of Tk0.2 million–5 million. In addition, the TA loan component will provide capacity-building assistance to PFIs to strengthen their systems and procedures for SME lending, and train the SME credit staff to better understand and guide SMEs in their operations.

#### b. Participating Financial Institutions

4. Since the facility is aimed at improving access to credit by SMEs, it was deemed appropriate to make the facility available to as wide a number of eligible financial institutions (FIs) as possible. Moreover, the current approach is aimed at mainstreaming SME lending in the financial sector as opposed to the previous practice of relying on specialized FIs such as development finance institutions to deliver the credit. Consequently, BB in its capacity as

administrator of SEF will accredit PFIs that meet eligibility criteria as agreed between BB, WB, and ADB. Due diligence of the PFIs will be carried out as necessary. BB will provide relevant information to ADB regarding accreditation of PFIs.

### **c. PFI Eligibility Criteria**

5. Eligible PFIs must have no more than 10% classified loans on portfolios up to Tk5 million. Being under the supervision of BB, PFIs must also fully comply with BB's prudential regulations which include, among other things, (i) minimum capital of 9% on a risk-weighted basis, up from 8% previously; (ii) exposure limit to a particular customer or group; (iii) loan classification and loan loss provisioning; (iv) internal control system; (v) risk management and antimoney-laundering procedures; and (vi) early warning system. In addition, under the Project Agreement between ADB and BB, each participation agreement between BB and the PFI will contain provisions that require the PFI to maintain financial soundness; conduct its operations in accordance with sound financial principles and practices; maintain a lending and investment policy acceptable to ADB and BB to enable it to effectively appraise the financial, technical, environmental, and economic feasibility of investment projects; and supervise and monitor the implementation of investment projects by beneficiaries. BB's prudential regulations as well as the WB's criteria conform to the eligibility criteria of PFIs under ADB's Financial Intermediation Lending (FIL) policy that have been reflected in the Project Agreement between ADB and BB. Moreover, the TA loan will provide assistance to PFIs to strengthen their systems and procedures for SME lending to ensure compliance with ADB's FIL policy.

6. **Safeguard Policies.** BB will ensure that PFIs adhere to ADB's safeguard policies on environment and resettlement. ADB will assist PFIs through the TA loan to establish environmental management and monitoring systems appropriate for the targeted small enterprise clientele.

7. **BDS Offered by PFIs.** ADB, under the TA loan, will provide assistance to build up the capacity of PFIs to improve their SME lending capabilities, systems, and procedures; and to provide in-house advisory services for their SME clients. For more in-depth and sophisticated BDS, PFIs will refer SMEs to external BDS providers.

### **d. Small and Medium Enterprise Beneficiaries**

8. **Coverage.** Taking into account the experience under the BB's Rural-based Agro-processing Industries Refinancing Facility, which had a low utilization rate owing mainly to the geographic restriction on use of funds, SEF has no geographic, industrial, or sector restrictions. SEF will finance agro-based enterprises, but not crop, livestock, and fish production that are being financed already with agricultural loans. Furthermore, participation in SEF is not limited to scheduled banks and the facility can be used for financing leases. More importantly, SEF will be subject to periodic review. BB in consultation with WB and ADB, will take corrective measures to improve utilization, including raising the coverage to include SMEs beyond the strict definition of the "missing middle" if needed.

9. **Allocation for Women Entrepreneurs.** Women are normally given lower priority in allocation of credit due mainly to negative sociocultural perceptions of women in business. To facilitate access by women borrowers, a minimum of 10% of SEF will be earmarked for lending to women entrepreneurs. However, if the earmarked funds are not utilized within a period of 1.5 years, such funds will revert to the general pool.

**e. Use of ADB Loan Proceeds**

10. The loan proceeds will be used to finance new loans advanced by PFIs under a participation agreement with BB for the purpose of using the SEF, and will not be used to refinance the portfolio of old loans in the existing portfolio of the PFIs. Loans approved by PFIs more than 180 days prior to the application date for reimbursement of first disbursement using ADB funds will not be allowed.

11. SEF will be available for medium-term (1–3 years) and long-term (3–5 years) loans as well as for short-term working capital loans.

12. Taking into account the estimated contribution from PFIs and SME beneficiaries as well as WB and BB cofinancing, ADB's share of the project cost is estimated at only 11.6% (Table 2). It is estimated that direct and indirect foreign exchange costs at the Project level will be 16.6% and 7.2%, respectively. At the subproject level, for flexibility in meeting the financing needs of small enterprises, no local cost financing limit shall be applied.

**f. Relending and Onlending Rates**

13. SEF is available for PFIs in local currency (taka) at the BB rate, which is currently 5%, while PFIs will onlend the funds in taka to qualified SME borrowers at market rates. Notwithstanding the use of the BB rate as the basis for the refinance facility, the onlending rate of PFIs to subprojects will be on strictly market-determined terms.

**g. Management of the Facility**

14. **Bangladesh Bank as Facility Manager.** BB was designated to administer SEF. The Agriculture Credit and Special Programs Department of BB will take charge of administering SEF, and BB will ensure that there are well-qualified professionals for the management of SEF. Once the SME Foundation is established, the management of SEF will be transferred in a phased manner from BB to the SME Foundation to ensure a sustainable institutional structure with private sector participation.

**C. Important Features**

15. The ineffective allocation of credit is due to market failures resulting from nonperforming loan problems of nationalized commercial banks and lack of effective long-term debt and interbank markets. ADB and other development partners have actively supported financial sector reform through various loan and TA projects to address market failures. However, measures aimed at creating an enabling environment will require continuous long-term commitment from the Government and will take time to bring about substantial development impact. Currently, some FIs that are keen to engage in SME lending are constrained by limited availability of term funds at reasonable cost while others need to be provided with incentives to expand their loan portfolio. The problem is more pronounced for SMEs in the “missing middle”. It is imperative that PFIs are provided with financing resources, especially term funds at reasonable rates, to induce them to focus on the SME sector, and trigger the expansion of their SME portfolio. SEF is formulated to mainstream SME lending in the financial system instead of just defining one or few PFIs. The project loan as contribution to SEF will also be complementary to the WB's contribution under its Enterprise Growth and Bank Modernization project. BB, as the fund manager, will coordinate the utilization of the ADB and WB fund contributions and the Government's own funds in SEF. Complementary to the project loan is the

TA loan that will enhance understanding of the SME sector among PFIs. Once the legal and institutional infrastructure is developed, these FIs will be able to introduce diversified financing mechanisms and instruments for more appropriately meeting the needs of SMEs. SMESDP will help bridge the current gap and allow for policy measures on financial market development to bear fruit.

## II. COST ESTIMATES AND FINANCING PLAN

### A. Cost and Financing Plan

16. The fund size of SEF is \$56.7 million equivalent consisting of \$16.7 million equivalent from the Government, \$10.0 million equivalent from WB, and \$30.0 million equivalent from ADB. PFIs and SME beneficiaries will contribute to the costs of subprojects from their own resources. The total project cost is estimated at \$257.8 million equivalent, including \$201.1 million equivalent estimated to be financed by PFIs, other sources of credit, and SME beneficiaries' equity in addition to SEF. ADB will provide the project loan of \$30 million equivalent from its Special Funds resources for a term of 32 years, including a grace period of 8 years, and with an interest rate of 1.0% per annum during the grace period and 1.5% per annum thereafter. The project loan will be provided in foreign exchange. Interest during the implementation period will be capitalized. Cost estimates and the financing plan are in Table 1.

**Table 1: Project Cost Estimates and Financing Plan**  
(\$ million)

Item	Cost Estimates			Financing Plan					
	Foreign Exchange	Local Currency	Total Cost	ADB	World Bank	GOB	PFI	Other Sources of Credit	SME Beneficiary
A. Small Enterprise Fund	12.9	41.5	54.4	28.8	9.6	16.0	0.0	0.0	0.0
B. Administrative Cost	0.0	0.7	0.7	0.0	0.0	0.7	0.0	0.0	0.0
C. Interest during Implementation Period	1.6	0.0	1.6	1.2	0.4	0.0	0.0	0.0	0.0
D. Project Costs Financed by Other Sources	47.9	153.2	201.1	0.0	0.0	0.0	30.9	85.1	85.1
<b>Total</b>	<b>62.4</b>	<b>195.4</b>	<b>257.8</b>	<b>30.0</b>	<b>10.0</b>	<b>16.7</b>	<b>30.9</b>	<b>85.1</b>	<b>85.1</b>
Share of Total (%)	24.2	75.8	100.0	11.6	3.9	6.5	12.0	33.0	33.0

### B. Allocation of Loan Proceeds

17. A portion of the proceeds of the loan amounting to taka amount equivalent to \$28,800,000 will be made available to BB for onlending in to Subborrowers. The loan proceeds will be applied to the financing of expenditures on the Project in a manner satisfactory to ADB.



### III. IMPLEMENTATION ARRANGEMENTS

#### A. Executing and Implementing Agency

18. The executing agency for the project loan is the Finance Division of the Ministry of Finance (MOF) [MOF-FD] and the implementing agency is BB. The central program coordination unit (CPCU) is responsible for overall coordination of the SMESDP.

#### B. Project Management Organization

**Table 2: Key Functions of the Implementing Agency**

Implementing Agency	BB
<b>Key Functions</b>	
<ul style="list-style-type: none"> <li>• BB to provide information to ADB on candidate PFIs including its assessment of their eligibility for SEF;</li> <li>• Disqualify any PFI that has become ineligible based on a semiannual review;</li> <li>• Review utilization and repayments of subloans/subleases of PFIs;</li> <li>• BB will maintain proper accounts, procedures, and records adequate to monitor and record the progress of subprojects financed by PFIs out of the subsidiary loans every 6 months;</li> <li>• BB will review and report to ADB the utilization of the facility through progress reports every 3 months;</li> <li>• BB will also monitor the socioeconomic and environmental benefits of the subprojects. In this regard, ADB will provide TA grant resources for benefit monitoring and evaluation;</li> <li>• BB will prepare progress reports to CPCU for consolidation and submission to ADB</li> </ul>	

### IV. IMPLEMENTATION SCHEDULE

19. The commitment period for the project loan is 5 years and the completion date is expected to be 30 June 2010.

### V. PROCUREMENT

20. PFIs will onlend the funds from SEF in taka as subloans/subleases to their SME clients at their prevailing pricing. Activities to be financed through subloans/subleases will be carried out in accordance with ADB's procurement requirements and environmental and other safeguard policies (Appendix 2).

### VI. DISBURSEMENT PROCEDURES

21. ADB will lend the SME credit funds in US dollars to the Government under a loan agreement. In turn, the Government will provide the taka proceeds to BB under an administrative agreement. As the apex institution, BB will lend the SME funds in taka to eligible PFIs at refinancing rate of interest equivalent to the prevailing BB rate. ADB financing will be available to PFIs on a refinancing basis (i.e., based on disbursement by PFIs to SME borrowers). In turn, PFIs will relend the SME credit funds in taka as subloans/subleases to their SME clients at market-determined rates. The SME clients will repay the principal amount of the

subloans/subleases to PFIs, which are obligated to repay BB in full irrespective of the amount collected from their clients. Activities to be financed through subloans/subleases will be carried out in accordance with ADB's procurement requirements and environmental and other safeguard policies. The project loan will be available for 5 years from the effectiveness of SMESDP. Subsequently, BB will recycle the funds repaid by PFIs for new subloans/subleases. Subloans/subleases drawn down under the facility will be coterminous with the ADB loan (i.e., 32 years maturity).

22. An imprest account will be established for the purpose of SEF administered by BB. The initial advance to the imprest account will be based on estimated expenditures for the first 6 months of the project loan or 10% of the respective loan amount (i.e., \$3 million equivalent), whichever is lower. The imprest account will be replenished as eligible expenditures are incurred and liquidated. The imprest account will be established, managed, and liquidated in accordance with ADB's *Loan Disbursement Handbook*, and detailed arrangements as agreed by the Government and ADB. ADB's statement of expenditures procedures may be used to reimburse eligible expenditures and to liquidate advances made into the imprest account in accordance with ADB's *Loan Disbursement Handbook*. Statement of expenditures procedures will be applicable to individual payments amounting to \$50,000 or less. The disbursement letter is attached as Appendix 3.

23. The following procedure should be followed:

- (i) MOF to provide list of authorized signatories for the withdrawal applications (W/As); ADB requires the Borrower's representative designated in the Loan Agreement to furnish sufficient evidence of the authority of the person(s) designated to sign the W/As together with their authenticated signatures.
- (ii) Evidence of authority of the person(s) designated to sign W/As must reach ADB before MOF submits the W/As from implementing agencies. MOF to coordinate submission of all W/As from implementing agencies to ADB or ADB BRM in duplicate.

24. For imprest account funds, MOF has to submit to ADB all W/As in duplicate. The following procedures should be observed:

- (i) For initial advance, provide all details as required in form ADB-IFP-EES (see ADB Loan Disbursement Handbook, Appendix 20).
- (ii) Estimated expenditures should normally be based on the amount of contracts awarded and to be awarded in the next six months. For expenditures related to operational costs, the amount should be linked to the project's budget provisions. No supporting documents are required.
- (iii) For replenishment of advances, the implementing agency will consolidate claims until the amount being withdrawn is at least \$100,000 equivalent, or an amount advised by ADB.
- (iv) To liquidate advances provided into the imprest account, the statement of expenditures (SOE) procedure may be used.
- (v) Any individual payment to be liquidated under the SOE procedure shall not exceed the equivalent of \$50,000.
- (vi) Where SOE is not allowed, MOF to submit all evidence of payment, invoices bill of lading, or work certificates.

- (vii) In all the above cases, MOF to attach a bank statement from BB maintaining the imprest fund and the bank reconciliation of the imprest account.

25. W/A will have to be filled out for each different currency in which withdrawal is requested. The W/A and the corresponding SOE Summary Sheets should be signed by authorized representative(s) of the Borrower and should be presented in two copies.

#### **A. Flow of Funds**

26. As proposed by BB on 17 July 2005, the flow of funds under Loan 2149-BAN is as follows (see Appendix 4):

- (i) MOF will arrange withdrawal from ADB's Loan Account and keep it in the "Imprest Account of Loan 2149-BAN(SF)" opened by MOF with BB.
- (ii) In terms of section (II) of the Administrative Agreement (AA) between BB and MOF dated 21 April 2005, MOF may release funds in phases to BB as and when claimed for providing refinance to PFIs by transfer from the aforementioned account.
- (iii) BB will submit claim to the MOF for release of fund for the amount needed to meet the refinance claims of the PFIs against their lending to the SME sector.
- (iv) The fund released by the MOF in favour of BB will be kept in a special account named "Small and Medium Enterprise Fund – ADB" maintained with the Accounts and Budgeting Department of BB and refinance to PFIs will be made by debiting the said account.
- (v) BB will recover the refinanced amount with accrued interest from the PFIs when repayment falls due as per repayment schedule and the principal amount so recovered will be retained by BB in the above mentioned account as revolving fund for continuing the refinance program during the life of the project. The interest earned and realized against the refinanced amount will be transferred to the Government account as specified by the MOF after adjusting the service charges due to BB as per Section V of the AA.
- (vi) BB will pay back the project fund in full to the Government on completion of the project as per Section III(g) of the said AA.

#### **B. Other Implementation Matters**

27. In a meeting held on 04 August 2005, (Appendix 5) other matters relating to the implementation of the SMESDP were discussed and agreed upon by MOF-FD, BB, MOI and ADB. These are:

- (i) An imprest account will be opened and maintained by the MOF in BB.
- (ii) BB will maintain its own special account for SEF in the Accounts and Budgeting Department of BB.
- (iii) Joint Secretary (Banking Policy), Finance Division (who heads CPCU) will be the signing authority of the W/As, to be submitted to ADB.

- (iv) BB will be responsible for the preparation of draft W/A and the collection of all supporting documentation.
- (v) Upon receipt from ADB of the replenishment fund, MOF-FD will transfer the requisite amount to BB's account.

**TABLE 3**

<b>ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS (Small and Medium Enterprise Sector Development Project)</b>					
CATEGORY				PERCENTAGE OF ADB FINANCING	
Number	Item	Amount Allocated [SDRs] Category Subcategory		Percentage	Basis for Withdrawal from the Loan Account
1	Small Enterprise Fund	19,111,000		100	percent of subloan amount*
2	Interest Charge	797,000		100	percent of amounts due
	Total	19,908,000			

\*Exclusive of local taxes

## **VII. PROJECT MONITORING AND EVALUATION**

28. The Borrower shall implement a performance monitoring system for monitoring and evaluation of the SMESDP, including the project loan, during and after implementation in accordance with a schedule to be agreed upon with ADB.

29. In addition to regular interaction between the MOF and ADB, annual reviews will be undertaken by ADB that will include an evaluation of the scope of the Project, implementation arrangements, and progress to date.

## **VIII. REPORTING REQUIREMENTS**

30. Quarterly progress reports on the execution of the project and semi-annual reports on the operation and management of the Project facilities will be provided by BB. The reports will contain and describe progress made during the period, problems encountered and the remedial actions taken. The reports will also include a summary financial account for the project, consisting of expenditures to date. A sample progress report is included in Appendix 6.

## **IX. AUDITING REQUIREMENTS**

31. The financial reporting and auditing requirements are also spelled out in the attached draft (sample) audit letter (Appendix 7), which will be issued to the borrower and copied to the EAs and their appointed auditor.

## **X. MAJOR LOAN COVENANTS**

32. In addition to the standard conditions, the following major covenants are included in the Loan Agreement. These covenants are directly related to the Program and are considered essential to ensure its successful implementation.

Specific Covenants	Agencies Responsible	Deadline for compliance	Reference	Remarks
<b>Audit</b> – To maintain separate accounts for the Project; have such accounts audited annually, in accordance with appropriate auditing standards, by independent auditors acceptable to ADB; furnish to ADB, not later than 6 months after the end of each fiscal year certified audited accounts.	BB	Dec 2006	PA, Section 2.09 (a)	Not yet due
<b>Reporting (quarterly/semi-annual/completion)</b> – To submit reports (quarterly/semiannual and project completion report) to ADB on the management of the Project facilities.	BB	Continuing	PA, Section 2.08	Not yet due

### Assurances

33. BB will ensure that the PFIs satisfy the selection and ongoing eligibility criteria to serve as a PFI under the SEF. BB will also ensure that subprojects are selected based on the criteria.

34. A minimum of 10% of SEF will be earmarked for lending to women entrepreneurs to ensure access by women borrowers. Earmarked funds that are not utilized within a period of 1.5 years will revert to the general pool.

35. Activities financed through the subloans and subleases will be carried out in accordance with applicable ADB procurement, environment, involuntary resettlement, and other guidelines and policies. With respect to the environment, the Government will carry out the Project in compliance with the relevant laws and regulations and ADB's *Environment Policy* (2002). The Government will also ensure that BB develops an appropriate environmental monitoring system comprising policy and procedures for monitoring of and reporting on PFIs' environmental management systems for implementing compliance by subborrowers with all relevant environmental regulations.

36. The Government will ensure that the performance of SME credit facilities currently administered directly by various government agencies and public sector FIs is reviewed and measures are taken to improve the targeting and efficiency of utilization of such facilities.

37. The Government will ensure that, in a phased manner, management of the SME credit facilities currently directly administered by the Government will be transferred to the SME Foundation to be established under the Program.

## XI. PARTICULAR PROJECT COVENANTS

38. In addition to the major loan covenants, the following particular covenants under Project Agreement, Article II, are as follows:

Section 2.01. (a) Bangladesh Bank shall carry out the Project with due diligence and efficiency, and in conformity with sound administrative, financial, environmental and SME development and professional management practices.

(b) In the carrying out of the Project and operation of the Project facilities, Bangladesh Bank shall perform all obligations set forth in the Loan Agreement to the extent that they are applicable to Bangladesh Bank and all obligations set forth in the Schedule to this Project Agreement.

Section 2.02. Bangladesh Bank shall make available, promptly as needed, the funds, facilities, services and other resources which are required, in addition to the proceeds of the Loan, for the carrying out of the Project.

Section 2.03. Except as ADB may otherwise agree, all goods and services to be financed out of the proceeds of the Loan shall be procured in accordance with the provisions of Schedule 4 and Schedule 5 to the Loan Agreement. ADB may refuse to finance a contract where goods or services have not been procured under procedures substantially in accordance with those agreed between the Borrower and ADB or where the terms and conditions of the contract are not satisfactory to ADB.

Section 2.04. Bangladesh Bank shall carry out the Project in accordance with plans and work schedules acceptable to ADB. Bangladesh Bank shall furnish, or cause to be furnished, to ADB, promptly after their preparation, such plans and work schedules, and any material modifications subsequently made therein, in such detail as ADB shall reasonably request.

Section 2.05. (a) Bangladesh Bank shall cause the PFIs to ensure that Subborrowers make arrangements satisfactory to ADB for insurance of Project facilities, to such extent and against such risks and in such amounts as shall be consistent with sound practice.

(b) Without limiting the generality of the foregoing, Bangladesh Bank shall cause the PFIs to ensure that the goods to be imported for the Project and to be financed out of the proceeds of the Loan are insured by the Subborrowers against hazards incident to the acquisition, transportation and delivery thereof to the place of use or installation, and for such insurance any indemnity shall be payable in a currency freely usable to replace or repair such goods.

Section 2.06. Bangladesh Bank shall maintain, or cause to be maintained, records and accounts adequate to identify the goods and services and other items of expenditure financed out of the proceeds of the Loan, to disclose the use thereof in the Project, to record the progress of the Project (including the cost thereof) and to reflect, in accordance with consistently maintained sound accounting principles, its operations and financial condition.

Section 2.07. (a) ADB and BB shall cooperate fully to ensure that the purposes of the Loan will be accomplished.

(b) BB 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, the Administrative Agreement, or any Participation Agreement with a PFI, or the accomplishment of the purposes of the Loan.

(c) ADB and BB 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, BB and the Loan.

Section 2.08. (a) BB 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 goods and services and other items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of BB to the extent relevant to the Loan; and (v) any other matters relating to the purposes of the Loan.

Section 2.08. (a) BB 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 goods and services and other items of expenditure financed out of such proceeds; (iii) the Project; (iv) the administration, operations and financial condition of BB to the extent relevant to the Loan; and (v) any other matters relating to the purposes of the Loan.

(b) Without limiting the generality of the foregoing, BB shall furnish to ADB quarterly reports on the execution of the Project and semi-annual on the operation and management of the Project facilities.

(c) Promptly after completion of the Project, but in any event not later than three (3) months thereafter or such later date as ADB may agree for this purpose, BB shall prepare and furnish to ADB a report, in such form and in such detail as ADB shall reasonably request, on the execution and initial operation of the Project, including its cost, the performance by BB of its obligations under this Project Agreement and the accomplishment of the purposes of the Loan.

Section 2.09. (a) BB shall (i) maintain separate accounts for the Project; (ii) have such accounts and related financial statements (balance sheet, statement of income and expenses, and related statements) audited annually, in accordance with appropriate auditing standards consistently applied, by independent auditors whose qualifications, experience and terms of reference are acceptable to ADB; and (iii) furnish to ADB, promptly after their preparation but in any event not later than six (6) months after the close of the fiscal year to which they relate, certified copies of such audited accounts and financial statements and the report of the auditors relating thereto (including the auditors' opinion on the use of the Loan proceeds and compliance with the financial covenants of the Loan Agreement as well as on the use of the procedures for imprest account/statement of expenditures), all in the English language.

(b) BB shall enable ADB, upon ADB's request, to discuss its financial statements and its financial affairs, to the extent pertaining to the utilization of the Loan proceeds, from time to time with its auditors, and shall authorize and require any representative of such auditors to participate in any such discussions requested by ADB, provided that any such discussion shall be conducted only in the presence of an authorized officer of BB unless BB shall otherwise agree.

Section 2.10. BB shall enable ADB's representatives to inspect the Project and the Subprojects, the goods financed out of the proceeds of the Loan and Subloans, and any relevant records and documents.

Section 2.11. (a) BB shall, promptly as required, take all action within its powers to maintain its legal 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.

(b) BB shall at all times conduct its business in accordance with sound administrative, financial, environmental practices, and under the supervision of competent and experienced management and personnel.

(c) BB shall at all times operate and maintain its offices, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, engineering, environmental, and maintenance and operational practices.

Section 2.12. Except as ADB may otherwise agree, BB shall apply the proceeds of the Loan to the financing of expenditures on the Project in accordance with the provisions of the Loan Agreement and this Project Agreement, and shall ensure that all goods and services financed out of such proceeds are used exclusively in the carrying out of the Project.

Section 2.13. Except as ADB may otherwise agree, BB shall duly perform all its obligations under the Administrative Agreement and the Participation Agreements, 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 such Agreements.

## **XII. ANTICORRUPTION**

39. The Project is subject to ADB's Anticorruption Policy. Anyone coming across evidence of corruption associated with the project is required to contact ADB's Office of the General Auditor, which will investigate allegations. Further information on ADB's anticorruption policy is available through ADB's website: <http://www.adb.org> (and selecting 'anticorruption' as topic), or directly through: <http://www.adb.org/Documents/Policies/Anticorruption/default.asp>.

### XIII. KEY PERSONS INVOLVED IN THE PROGRAM

40. All official communication related to the Program should be addressed to the following:

<b>Names</b>	<b>Company</b>	<b>Position</b>	<b>Address</b>	<b>Telephone / Fax No./ Email address</b>
TBD	ADB	Director	No. 6 ADB Avenue, Mandaluyong, Phil.	T-632-6325369 F-632-6362337 Email:
Virgilio T.Velasco	ADB	Sr. Financial Economist	No. 6 ADB Avenue, Mandaluyong, Phil.	T-632-6324398 F-632-6362337 Email: vtvelasco@adb.org
Renato Limjoco	ADB	Lead Financial Sector Specialist	No. 6 ADB Avenue, Mandaluyong, Phil.	T-632-6324444 F-632-6362337 Email: rlimjoco@adb.org
Md. Quddus Khan	Joint Secretary (Banking Policy)	MOF-FD	Bangladesh Secretariat, Dhaka	T-7165526 F-7165741
Nitai Das Saha	BB	General Manager, Agricultural Credit & Special Programmes Dept	Motijheel Commercial Area, Dhaka	T-7120947 F-9566212 Email: gmacspbb



### LIST OF INELIGIBLE ITEMS

1. The proceeds of the loan will be utilized to finance the foreign exchange expenditures for the reasonable cost of imported goods (excluding any dues or taxes) required during the execution of the Small and Medium Enterprise Sector Development Program. All imported goods financed from the proposed loan must be produced in, and procured from, Asian Development Bank member countries.

2. Notwithstanding the provisions of para.1, no withdrawals will be made from the loan account in respect of the following:

- (i) expenditures for goods included in the following Customs Coordination Council Nomenclature chapters of headings:

<u>Chapter</u>	<u>Heading</u>	<u>Description of Items</u>
22	22.03–22.10	Alcoholic Beverage
24	24.01	Tobacco, unmanufactured tobacco refuse
24	24.02	Tobacco, manufactured (whether or not containing tobacco substitutes)
28	28.50–28.52	Radioactive and associated materials
71	71.01–71.04	Pearls, precious and semi-precious stones, unworked or worked
71	71.05–71.06	Jewelry of gold, silver, or platinum group metals (except watches and watch cases) and goldsmiths or silversmiths wares (including set gems)
71	71.07–71.08	Gold, non-monetary (excluding gold ores and concentrates)
84	84.59	Nuclear reactors and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors

- (ii) expenditures for goods intended for a military or paramilitary purpose or for luxury consumption; or

- (iii) expenditures for pesticides categorized as extremely hazardous or highly hazardous in Class 1a and 1b of the World Health Organization's Classification of Pesticide by Hazard and Guidelines to Classification.