
LOAN NUMBER 4247-BAN(COL)

LOAN AGREEMENT
(Ordinary Operations [Concessional])
(Microenterprise Financing and Credit Enhancement Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

ASIAN DEVELOPMENT BANK

DATED 6 DECEMBER 2022

BAN 51269

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LOAN AGREEMENT
(Ordinary Operations [Concessional])

LOAN AGREEMENT dated 6 December 2022 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 Schedule 1 to this Loan Agreement;

(B) the Project will be carried out by the Financial Institutions Division of the Ministry of Finance of the Borrower through Palli Karma Sahayak Foundation (as more fully defined below, "PKSF") and for this purpose the Borrower will make available to PKSF the proceeds of the loan provided for herein upon terms and conditions satisfactory to ADB; and

(C) ADB has agreed to make a concessional 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 PKSF;

NOW THEREFORE the parties hereto agree as follows:

ARTICLE I

Loan Regulations; Definitions

Section 1.01. All the provisions of ADB's Ordinary Operations (Concessional) Loan Regulations, dated 1 January 2022 ("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(w) is deleted and the following is substituted therefor:

"Project Agreement" means the project agreement of even date herewith between ADB and PKSF, as such agreement may be amended from time to time; and such project agreement includes all schedules to the project agreement.

(b) The term "Project Executing Agency" appearing in Sections 6.01(a), 8.01(d), 8.01(f), 8.01(k), 9.01(c) and 9.02(c) of the Loan Regulations shall be substituted by the term "PKSF".

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:

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- (a) "CGF" means the pilot credit guarantee fund to be established by PKSF to provide credit guarantees to CGF Institutions on behalf of POs, as further described in paragraph 2(b) of Schedule 1 to this Loan Agreement;
- (b) "CGF Institution" means each financial institution or organization which enters into a Guarantee Agreement with PKSF for the purposes of the CGF;
- (c) "CGF OM" means the operations manual for the CGF developed and approved under the Project;
- (d) "Consulting Services" means consulting services as described in the Procurement Regulations, and to be financed out of the proceeds of the Loan;
- (e) "Credit Line" means the credit line to be established by PKSF for the financing of eligible microenterprises through the POs, as further described in paragraph 2(a) of Schedule 1 to this Loan Agreement
- (f) "EMP" means each environmental management plan for a Qualified Subproject, including any update thereto, incorporated in the IEE;
- (g) "Environmental Safeguards" means the principles and requirements set forth in Chapter V, Appendix 1, and Appendix 4 (as applicable) of the SPS;
- (h) "ESMS" means an environmental and social management system for the Project, including any update thereto, prepared and submitted by PKSF and cleared by ADB;
- (i) "GAP" means the gender action plan prepared for the Project, including any update thereto, and agreed to between the Borrower, PKSF and ADB;
- (j) "Goods" means equipment and materials to be financed out of the proceeds of the Loan, including any related Nonconsulting Services such as transportation, insurance, installation, commissioning, training, and initial maintenance;
- (k) "Guarantee Agreement" means each guarantee agreement between PKSF and a CGF Institution pursuant to which PKSF shall agree to provide a credit guarantee to the CGF Institution on behalf of a PO under the CGF;
- (l) "IEE" means each initial environmental examination for a Qualified Subproject, including any update thereto, prepared and submitted by PKSF pursuant to the requirements set forth in the ESMS;
- (m) "Loan Disbursement Handbook" means ADB's Loan Disbursement Handbook (2017, as amended from time to time);
- (n) "MFI" means a microfinance Institution;

- (o) "MRA" means the Microcredit Regulatory Authority of the Borrower;
- (p) "Nonconsulting Services" means nonconsulting services as described in the Procurement Regulations and to be financed out of the proceeds of the Loan;
- (q) "PAM" means the project administration manual for the Project dated 13 September 2022 and agreed between the Borrower, PKSF and ADB, as updated from time to time in accordance with the respective administrative procedures of the Borrower, PKSF and ADB;
- (r) "PKSF" means Palli Karma Sahayak Foundation, established by the Government of Bangladesh as a not-for-profit company registered under the Companies Act, 1994 (Act 18 of 1994), which is responsible for carrying out the Project, or any successor thereto acceptable to ADB;
- (s) "PO" means each microfinance institution which becomes a partner organization of PKSF by satisfying the eligibility criteria set out in paragraph 4 of Schedule 4 to this Loan Agreement;
- (t) "PO Financing Agreement" means each financing agreement between PKSF and a PO pursuant to which the PO shall agree to sublend a portion of the proceeds of the Loan to a Qualified Enterprise for a Qualified Subproject under the Credit Line;
- (u) "Procurement Policy" means ADB's Procurement Policy – Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);
- (v) "Procurement Regulations" means ADB's Procurement Regulations for ADB Borrowers - Goods, Works, Nonconsulting and Consulting Services (2017, as amended from time to time);
- (w) "Project Executing Agency" for the purposes of, and within the meaning of, the Loan Regulations means the Financial Institutions Division of the Ministry of Finance of the Borrower or any successor thereto acceptable to ADB, which is responsible for the carrying out of the Project;
- (x) "Qualified Enterprise" means an enterprise, which satisfies the eligibility criteria set out in paragraph 6 of Schedule 4 to this Loan Agreement;
- (y) "Qualified Subproject" means an activity which satisfies the eligibility criteria set out in paragraph 7 of Schedule 4 to this Loan Agreement, to be carried out by a Qualified Enterprise;
- (z) "Services" means Consulting Services and Nonconsulting Services;
- (aa) "SPS" means ADB's Safeguard Policy Statement (2009);

- (bb) "Subloan" means a loan made, or proposed to be made, by a PO based on the terms set out in paragraph 9 of Schedule 4 to this Loan Agreement to a Qualified Enterprise for a Qualified Subproject under the Credit Line;
- (cc) "Subsidiary Loan Agreement" means the agreement between the Borrower and PKSf referred to in Section 3.02 of this Loan Agreement pursuant to which PKSf will agree to make available a portion of the proceeds of the Loan to POs under the Credit Line and use a portion of the proceeds of the Loan to establish and operate the CGF;
- (dd) "Taka" means the lawful currency of the Borrower; and
- (ee) "Works" means construction or civil works to be financed out of the proceeds of the Loan, including any related Nonconsulting Services, and project related services that are provided as part of a single responsibility or turnkey contract.

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).

(b) The Loan has a principal repayment period of 20 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 2 to this Loan Agreement.

Section 2.02. The Borrower shall pay to ADB an interest charge at the rate of 2% per annum during the grace period and thereafter, on the amount of the Loan withdrawn from the Loan Account and outstanding from time to time.

Section 2.03. The interest charge and any other charge on the Loan shall be payable semiannually on 1 January and 1 July in each year.

Section 2.04. The Borrower shall repay the principal amount of the Loan withdrawn from the Loan Account in accordance with the amortization schedule set forth in Schedule 2 to this Loan Agreement.

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, through PKSF, of Qualified Subprojects by POs under the Credit Line and the establishment of the CGF by PKSF, in accordance with this Loan Agreement and the Project Agreement.

Section 3.02. (a) The Borrower shall enter into a Subsidiary Loan Agreement with PKSF, providing inter alia for the relending of Taka equivalent of the proceeds of the Loan to PKSF, the carrying out of the Project, and the rights of the Borrower and ADB with respect thereto. Such Subsidiary Loan Agreement shall be in form and on terms and conditions acceptable to ADB, and shall be without prejudice to, and without limitation on, the obligations of the Borrower under this Loan Agreement. The Borrower shall bear the foreign exchange risk in respect thereof.

(b) PKSF shall onlend the Taka equivalent of a portion of the proceeds of the Loan to the POs, each under a PO Financing Agreement, and cause the POs to apply such funds to the financing of expenditures for the purposes of the Credit Line in accordance with this Loan Agreement and the Project Agreement.

(c) PKSF shall use a portion of the proceeds of the Loan to establish and operate the CGF for the purposes of providing credit guarantees to the CGF Institutions on behalf of the POs, each under a Guarantee Agreement, and apply such funds in accordance with this Loan Agreement and the Project Agreement.

Section 3.03. The proceeds of the Loan shall be allocated and withdrawn in accordance with the provisions of Schedule 3 to this Loan Agreement, as such Schedule may be amended from time to time by agreement between the Borrower and ADB.

Section 3.04. (a) Except as ADB may otherwise agree, the proceeds of the Loan made available to the POs under the Credit Line shall be used only for making Subloans to Qualified Enterprises for Qualified Subprojects and shall be applied exclusively to the cost of Goods, Works and 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 Services in accordance with the provisions of Schedule 4 to this Loan Agreement.

Section 3.05. The Loan Closing Date for the purposes of Section 8.02 of the Loan Regulations shall be 30 June 2028 or such other date as may from time to time be agreed between the Borrower and ADB.



ARTICLE IV

Particular Covenants

Section 4.01. In the carrying out of the Project, the Borrower shall perform, or cause to be performed, all the obligations set forth in Schedule 4 to this Loan Agreement and the Project Agreement.

Section 4.02. In addition to the information and reports set forth in Sections 6.01 and 6.05 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; (b) the CGF; and (c) the administration, operations and financial condition of PKSF, the POs and the CGF Institutions.

Section 4.03. The Borrower shall enable ADB's representatives to inspect any Qualified Enterprise, any Qualified Subproject, the CGF, the Goods, Works and Services, and any relevant records and documents maintained by PKSF, the POs and the CGF Institutions.

Section 4.04. The Borrower shall not take or permit any action which would interfere with the performance of PKSF's obligations under the Project Agreement.

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 8.01(m) of the Loan Regulations:

- (a) PKSF shall have failed to perform any of its obligations under the Subsidiary Loan Agreement, including failure to remedy any default within 90 days of the date of such default; and
- (b) any PO shall have failed to perform any material obligations under the applicable PO Financing Agreement, including failure to remedy any default within a reasonable period as determined by PKSF.

Section 5.02. The following is specified as an additional event for acceleration of maturity for the purposes of Section 8.07(d) of the Loan Regulations: either of the events specified in Section 5.01 of this Loan Agreement shall have occurred.

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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 9.01(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 PKSf, and shall have become effective and binding upon the Borrower and PKSf, respectively, in accordance with its terms, subject only to the effectiveness of this Loan Agreement. For the avoidance of doubt, in demonstrating compliance with this condition, the Borrower shall not be required to submit to ADB an opinion of counsel in respect of the Subsidiary Loan Agreement.

Section 6.02. 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 9.04 of the Loan Regulations.

ARTICLE VII**Delegation of Authority**

Section 7.01. The Borrower hereby designates PKSf as its agent for the purposes of taking any action or entering into any agreement required or permitted under Sections 3.03, 3.04 and 3.05 of this Loan Agreement and under Sections 5.01, 5.02, 5.03 and 5.04 of the Loan Regulations.

Section 7.02. Any action taken or any agreement entered into by PKSf 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 PKSf 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. The Senior Secretary, Secretary, Additional Secretary, Joint Secretary, Deputy Secretary, Senior Assistant Secretary, or Assistant Secretary of the Economic Relations Division of the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.02 of the Loan Regulations.

Section 8.02. The following addresses are specified for the purposes of Section 11.01 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) 8636-2444
(632) 8636-2293.

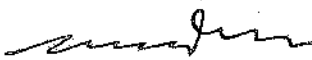


IN WITNESS WHEREOF the parties hereto, acting through their representatives thereunto duly authorized, have caused this Loan Agreement to be signed in their respective names as of the day and year first above written and to be delivered at the principal office of ADB.

PEOPLE'S REPUBLIC OF BANGLADESH

By  06/12/2022
SHARIFA KHAN
Secretary
Economic Relations Division
Ministry of Finance

ASIAN DEVELOPMENT BANK

By 
EDIMON GINTING
Country Director
Bangladesh Resident Mission

SCHEDULE 1

Description of the Project

1. The objective of the Project is to increase microenterprises' access to financing from MFIs.
2. The Project shall comprise:
 - (a) Component 1 (Credit Line): Funding to MFIs for microenterprise financing expanded. This component will support the establishment of a credit line by PKSF to onlend to POs for microenterprise financing through Subloans provided to Qualified Enterprises for Qualified Subprojects, with a focus on women's economic empowerment and women microenterprise borrowers.
 - (b) Component 2 (CGF): Commercial sources of funding to MFIs for microenterprise financing increased. This component will support the establishment and operation of a pilot credit guarantee fund within PKSF to provide credit guarantees to cover part of the credit risk of commercial banks which lend to POs to further enable the POs to sustainably expand their microenterprise financing outreach.
3. The Project is expected to be completed by 31 December 2027.

SCHEDULE 2

Amortization Schedule

<u>Payment Due</u>	<u>Payment of Principal</u> (expressed in Dollars*)
1 January 2028	5,000,000
1 July 2028	5,000,000
1 January 2029	5,000,000
1 July 2029	5,000,000
1 January 2030	5,000,000
1 July 2030	5,000,000
1 January 2031	5,000,000
1 July 2031	5,000,000
1 January 2032	5,000,000
1 July 2032	5,000,000
1 January 2033	5,000,000
1 July 2033	5,000,000
1 January 2034	5,000,000
1 July 2034	5,000,000
1 January 2035	5,000,000
1 July 2035	5,000,000
1 January 2036	5,000,000
1 July 2036	5,000,000
1 January 2037	5,000,000
1 July 2037	5,000,000
1 January 2038	5,000,000
1 July 2038	5,000,000
1 January 2039	5,000,000
1 July 2039	5,000,000
1 January 2040	5,000,000
1 July 2040	5,000,000
1 January 2041	5,000,000
1 July 2041	5,000,000
1 January 2042	5,000,000
1 July 2042	5,000,000
1 January 2043	5,000,000
1 July 2043	5,000,000
1 January 2044	5,000,000
1 July 2044	5,000,000
1 January 2045	5,000,000
1 July 2045	5,000,000

1 January 2046	5,000,000
1 July 2046	5,000,000
1 January 2047	5,000,000
1 July 2047	5,000,000
Total	200,000,000

The arrangements for payment are subject to the provisions of Sections 3.04 and 4.03 of the Loan Regulations.

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SCHEDULE 3

Allocation and Withdrawal of Loan Proceeds

General

1. The table attached to this Schedule sets forth the Categories of items of expenditure to be financed out of the proceeds of the Loan and the allocation of the Loan proceeds to each such Category ("Table"). (Reference to "Category" in this Schedule is to a Category of the Table.)

Basis for Withdrawal from the Loan Account

2. Except as ADB may otherwise agree, the proceeds of the Loan shall be allocated to items of expenditure, and disbursed on the basis of the withdrawal percentage for each item of expenditure set forth in the Table.

Reallocation

3. Notwithstanding the allocation of Loan proceeds and the withdrawal percentages set forth in the Table,

- (a) if the amount of the Loan allocated to any Category appears to be insufficient to finance all agreed expenditures in that Category, ADB may, in consultation with the Borrower, (i) reallocate to such Category, to the extent required to meet the estimated shortfall, amounts of the Loan which have been allocated to another Category but, in the opinion of ADB, are not needed to meet other expenditures, and (ii) if such reallocation cannot fully meet the estimated shortfall, reduce the withdrawal percentage applicable to such expenditures in order that further withdrawals under such Category may continue until all expenditures thereunder shall have been made; and
- (b) if the amount of the Loan allocated to any Category appears to exceed all agreed expenditures in that Category, ADB may, in consultation with the Borrower, reallocate such excess amount to any other Category.

Disbursement Procedures

4. Except as ADB may otherwise agree, the Loan proceeds shall be disbursed in accordance with the Loan Disbursement Handbook.

Conditions for Withdrawals from Loan Account

5. Notwithstanding any other provision of this Loan Agreement, no withdrawals shall be made from the Loan Account for Category 2 (Credit Guarantee Fund) until:

- (a) the CGF OM, in form and substance satisfactory to ADB, has been prepared which shall include: (i) eligibility and selection criteria for CGF

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financing; (ii) procedures and requirements for applications for guarantees under the CGF; (iii) implementation arrangements with participating CGF Institutions and POs; (iv) governance, technical, investment and financial supervision mechanisms; and (v) monitoring and reporting on the use of funds allocated for the purposes of the CGF;

- (b) the CGF OM shall have been approved by PKSF's governing body;
- (c) evidence satisfactory to ADB shall have been provided by PKSF that an information system is in place to identify CGF operations in management reports and a chart of accounts has been set up to record credit guarantees issued and claims paid under the CGF;
- (d) the project management unit established within PKSF shall have dedicated full-time staff sufficient for the operation of the CGF, monitoring and management of funds allocated for the purposes of the CGF, and preparation of financial and administrative reports on the CGF for submission to ADB; and
- (e) a template Guarantee Agreement acceptable to ADB shall have been prepared for use for the purposes of the CGF.

TABLE

ALLOCATION AND WITHDRAWAL OF LOAN PROCEEDS			
Number	Item	Total Amount Allocated for ADB Financing (\$) Category	Basis for Withdrawal from the Loan Account
1	Credit line	180,000,000	100% of total expenditures claimed
2	Credit guarantee fund*	20,000,000	100% of total expenditures claimed
	TOTAL	200,000,000	

*Subject to the conditions for withdrawal described in paragraph 5 of Schedule 3.

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SCHEDULE 4

Execution of Project; Financial Matters

Implementation Arrangements

1. The Borrower shall ensure, and cause PKSF to 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, PKSF and ADB. In the event of any discrepancy between the PAM and this Loan Agreement, the provisions of this Loan Agreement shall prevail.
2. The Borrower shall ensure, and cause PKSF to ensure, that the project management unit established within PKSF for the Project shall have been supplemented with at least five dedicated full-time staff sufficient for overall project management and preparation of withdrawal applications as well as consolidation and compilation of financial reports for the Credit Line and the CGF, including annual audited statements of utilization of funds.

Procurement

3. The Borrower and PKSF shall ensure, or cause each PO to ensure, that:
 - (a) the procurement of Goods, Works and Services is carried out in accordance with the Procurement Policy and the Procurement Regulations;
 - (b) each Qualified Enterprise undertakes procurement of Goods, Works and Services with due attention to economy and efficiency and in accordance with established private sector or commercial practices, acceptable to ADB;
 - (c) (i) all Goods and Works procured and Services obtained by the Qualified Enterprise (including 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; and (ii) all contracts entered into by the Qualified Enterprise for the procurement of Goods, Works and Services contain appropriate representations, warranties and, if appropriate, indemnities from the contractor, supplier, consultant or service provider with respect to the matters referred to in this subparagraph; and
 - (d) 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 Services provided do not violate or infringe any industrial property or intellectual property right or claim of any third party.



Component 1 – Credit LinePO Eligibility Criteria

4. To be eligible for participation in the Project, the Borrower shall cause PKSF to ensure that each PO is at all times licensed by MRA and is in compliance with prudential norms and regulations set by MRA and meets and maintains compliance with the following criteria:

- (a) has a cumulative recovery rate of current loans of at least 95%, where "cumulative recovery rate" is defined as amounts received for scheduled payments and payments past due as a share of total loan principal recoverable since inception;
- (b) has a recovery rate of current loans of at least 92%, where "recovery rate of current loans" is defined as amounts received for scheduled payments as a share of total payments due within 12 months;
- (c) has a maximum debt to capital ratio of 9:1;
- (d) has a minimum required capital of Taka 2 million;
- (e) has a capital adequacy ratio of no less than 10%, where "capital adequacy ratio" is defined as the ratio of total capital funds to an asset base of total assets less cash, bank placements and short-term deposits;
- (f) has a portfolio at risk no higher than 10%, where "portfolio at risk" is defined as the outstanding balance of loans with payments past due as a share of the total loan portfolio, with loans being taken into account from when the first installment is past due;
- (g) is profitable over the two latest audited financial statements, or as of the last two financial years;
- (h) has 2 years of experience of implementing microfinance programs as a PO of PKSF; and
- (i) has a loan portfolio with at least 10% of its borrowers from climatically adverse regions, where "climatically adverse regions" means geographical areas which are saline affected, flood-prone and drought-prone.

5. ADB shall confirm the eligibility of each PO to participate in the Project, in consultation with PKSF, based on its assessment of such PO's compliance with the criteria described in paragraph 4 above. Further to such confirmation, PKSF shall enter into a PO Financing Agreement with each eligible PO which shall set out onlending rates and terms acceptable to ADB. Such PO Financing Agreement shall be based on a standard form developed by PKSF for the Project and acceptable to ADB.

Qualified Enterprise

6. The Borrower shall cause PKSF to ensure that each Qualified Enterprise (a) is at all times an eligible member of the relevant PO and (b) meets and maintains compliance with the following criteria:

- (a) is an operating microenterprise with total investment between Taka 40,000 to Taka 1.5 million (excluding land and buildings used in the enterprise);
- (b) is a progressive member of a PO (a "progressive microcredit borrower"), or is an individual microentrepreneur. For the purposes of the foregoing, "progressive member" of a PO means a member of such PO who has borrowed at least twice over two years and has repaid such borrowings on a timely basis;
- (c) is a member of a household which includes a progressive microcredit borrower (as defined in subsection (b) hereinabove); and
- (d) has invested at least 20% of the total investment in the enterprise (as calculated in accordance with subparagraph (a) hereinabove) from the enterprise's own resources.

Qualified Subproject

7. The Borrower shall cause PKSF to ensure that each Qualified Subproject does not involve any activities:

- (a) with environmental impacts which can be categorized as Category A within the meaning of the SPS (for the avoidance of doubt, activities with potential impacts on environment which can be classified as Category A within the meaning of the SPS are excluded under the Project);
- (b) with involuntary resettlement or indigenous peoples (tribes, minor races, ethnic sects and communities) impacts which can be categorized as Category A or B within the meaning of the SPS (for the avoidance of doubt, activities with potential impacts on involuntary resettlement or indigenous peoples which can be classified as Category A or B within the meaning of the SPS are excluded under the Project); and
- (c) that are included in the list of prohibited investment activities provided in Appendix 5 of the SPS.

8. The Borrower shall cause PKSF to ensure that the POs conduct climate change and disaster risk screening for each region in which Qualified Subprojects are located as part of the credit appraisal process for a Qualified Enterprise.

Subloan

9. The Borrower shall cause PKSF to ensure that each Subloan:

Schedule 4

- (a) finances no more than 80% of the cost of the Qualified Subproject with the remainder covered by the Qualified Enterprise's own contribution;
- (b) does not exceed Taka 5 million, except for a Qualified Enterprise which is a first time borrower, it does not exceed Taka 100,000;
- (c) has a market-based interest rate that reflects the cost of funds plus a spread that covers operating costs and risks, provided that in no event shall the interest rate exceed 18% per annum;
- (d) has a maximum maturity of two years with flexible repayment schedule subject to the Qualified Enterprise's cash flow; and
- (e) is used only for procurement in member countries of ADB, in accordance with procedures acceptable to ADB, of Goods which are produced in and supplied from, and Works and Services which are supplied from, such countries.

SafeguardsScreening, Categorization, and Environmental Assessment and Planning

10. The Borrower shall cause PKSF to ensure that before any Qualified Subproject is approved for financing:
- (a) the ESMS is used to screen and categorize the significance of potential environmental impacts associated with such Qualified Subproject; and
 - (b) an IEE and an EMP are prepared for such Qualified Subproject as required pursuant to the ESMS.

Environment

11. The Borrower shall ensure, or cause PKSF to ensure that the preparation, design, construction, implementation, operation and decommissioning of each Qualified Subproject comply with (a) all applicable laws and regulations of the Borrower relating to environment, health, and safety; (b) the Environmental Safeguards; (c) the ESMS; and (d) all measures and requirements set forth in the respective IEE and EMP, and any corrective or preventative actions set forth in a Safeguards Monitoring Report.

Human and Financial Resources to Implement Safeguards Requirements

12. The Borrower shall ensure, or cause PKSF to ensure, that (a) necessary budgetary and human resources are made available to fully implement the ESMS; and (b) each sub-borrower under the Qualified Subproject makes necessary budget and human resources to fully implement the respective EMP.

Safeguards Monitoring and Reporting

13. The Borrower shall cause PKSF to do the following:
- (a) submit annual Safeguards Monitoring Reports to ADB;
 - (b) if any unanticipated environmental and/or social risks and impacts arise during implementation of a Qualified Subproject, promptly inform ADB of the occurrence of such risks or impacts, with detailed description of the event and proposed corrective action plan; and
 - (c) report any actual or potential breach of compliance with the measures and requirements set forth in the ESMS and any EMP promptly after becoming aware of the breach.

Component 2 - CGFCredit Guarantees

14. The Borrower shall ensure, and cause PKSF to ensure, that:
- (a) the establishment and operation of the CGF and the use of Loan proceeds disbursed for the purposes of the CGF comply at all times with the requirements, procedures and fiduciary responsibilities specified in the PAM and the CGF OM; and
 - (b) PKSF prepares and submits quarterly statements of account on the use of the Loan proceeds disbursed for the purposes of the CGF, including details of any investments and interest earned, guarantees issued and claims made or paid using Loan proceeds under the CGF.

CGF Institutions Eligibility Criteria

15. To be eligible for participation in the CGF, the Borrower shall cause PKSF to ensure that each CGF Institution is at all times licensed by, and is in compliance with prudential norms and regulations set by Bangladesh Bank, and meets and maintains compliance with the following criteria:
- (a) has appropriate internal rules and procedures for lending to MFIs including an MFI loan origination policy and clear loan documentation and procedures for MFI lending;
 - (b) uses a credit rating system for MFIs, including models, rules, procedures in accordance with the rules and regulations of Bangladesh Bank;
 - (c) be able to demonstrate staff capacity in assessing and managing loans to MFIs; and

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- (d) has a share of non-performing loans in its loan portfolio, inclusive of loan write-off balances in the loan portfolio issued for business purposes for the last 2 years, not exceeding 10% (such percentage may be revised by agreement between ADB and PKSF in consultation with the Project Executing Agency), and appropriate internal rules and procedures for dealing with overdue loans.

16. The ADB shall confirm the eligibility of each CGF Institution to participate in the CGF, in consultation with PKSF, based on its assessment of such CGF Institution's compliance with the criteria described in paragraph 15 above and any other criteria specified in the CGF OM. Further to such confirmation, PKSF shall enter into a Guarantee Agreement with each eligible CGF Institution in accordance with the procedures set out in the CGF OM.

PO Eligibility Criteria and Qualification

17. To be eligible for participation as a PO in the CGF, the Borrower shall cause PKSF to ensure that each PO meets and maintains compliance with all of the criteria set out in paragraph 4 above.

18. The Borrower shall ensure, or cause PKSF to ensure, that at least 50% of the total amount of loans guaranteed under the CGF shall be on behalf of POs which have received debt funding from commercial banks in the previous financial year of not more than 30% of the PO's total debt funding.


Reflows

19. The Borrower shall ensure, or cause PKSF to ensure that, that after full disbursement of the Taka equivalent of the Loan proceeds, any reflows from repaid Subloans under the Credit Line during Project implementation are retained by PKSF to onlend to POs for making new loans to Qualified Enterprises, until completion of the Project.

20. The Borrower shall ensure, or cause PKSF to ensure that, at the end of the pilot period for the CGF, any Loan proceeds disbursed for the purposes of the CGF and any interest earned on such Loan proceeds will be applied by PKSF to onlend to POs for making new loans to Qualified Enterprises under the Credit Line or to continue the operation of the CGF, until completion of the Project.

Gender and Development

21. The Borrower shall ensure that: (a) the GAP is implemented in accordance with its terms; (b) adequate resources are allocated for implementation of the GAP, including the appointment of a dedicated gender focal point at PKSF; and (c) progress on implementation of the GAP, including progress toward achieving key gender outcome and output targets, are regularly monitored and reported to ADB.



Financial Management

22. The Borrower shall ensure, or cause PKSF to ensure, that the financial management action plan set out in the PAM is implemented within the stipulated time frame and the progress toward achieving the targets are monitored and reported to ADB.

Governance and Anticorruption

23. The Borrower and PKSF 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

24. The Borrower shall cause PKSF to ensure that each PO and CFG Institution:
- (a) complies 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) formulates and implements internal control procedures, including customer due diligence procedures, to prevent violation of subparagraph (a) hereinabove; and
 - (c) promptly informs PKSF and ADB if there is any violation or potential violation of subparagraph (a) hereinabove. In the event that ADB informs PKSF of its concern that there has been such an alleged violation, PKSF 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.

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