

CONFORMED COPY

CREDIT NUMBER 3791 BD

Development Credit Agreement

(Rural Transport Improvement Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 30, 2003

CREDIT NUMBER 3791 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 30, 2003, between PEOPLE'S REPUBLIC OF BANGLADESH (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

(B) the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Annual Development Program" means the Borrower's Annual Development Program furnished to the Association in August, 2003, as such Annual Development Program may be modified from time to time by agreement between the Borrower and the Association;

(b) "Bangladesh Bank" means the Central Bank of Bangladesh established and operating under the Borrower's Bangladesh Bank Order, 1972 (P.O. Order No. 127 of 1972) for the purpose of carrying out the business of central banking;

(c) "Environmental Code of Practice" means the Environmental Code of Practice furnished to the Association in March 2003, as such Environmental Code of Practice may be amended from time to time by agreement between the Borrower and the Association;

(d) “Environmental Framework” means the Environmental Framework furnished to the Association in March 2003, as such Environmental Framework may be amended from time to time by agreement between the Borrower and the Association;

(e) “Environmental Framework Management Plans” means the Environmental Framework Management Plans furnished to the Association in March 2003, and referred to in paragraph 1(b) of Schedule 4 to this Agreement, as such Environmental Framework Management Plans may be amended from time to time by agreement between the Borrower and the Association;

(f) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(g) “Frameworks and Plans” means the Environmental Code of Practice, the Environmental Framework, the Environmental Framework Management Plans, the Resettlement Framework, the Resettlement Action Plans and the Indigenous Peoples’ Development Plans;

(h) “FY” or “Fiscal Year” means the fiscal year of the Borrower commencing on July 1 and ending on June 30 of the following year;

(i) “IEC” means information, education and communication;

(j) “Indigenous Peoples’ Development Plans” means the Indigenous Peoples’ Development Plans furnished to the Association in March 2003, as such Indigenous Peoples Development Plans may be amended from time to time by agreement between the Borrower and the Association;

(k) “ISAP” means the Institutional Strengthening Action Plan of the Borrower furnished to the Association in April 2003, as the same may be amended from time to time by agreement between the Borrower and the Association;

(l) “LGED” means the Local Government Engineering Department of the Local Government Division of the Borrower’s Ministry of Local Government, Rural Development and Cooperatives;

(m) “Midterm Review” means the midterm review to be carried out pursuant to paragraph 6(d) of Schedule 4 to this Agreement;

(n) “Project Financial Management Manual” means the Project Financial Management Manual designed for purposes of the Project to be included in the Project Implementation Plan;

(o) “Project Implementation Plan” means the Project Implementation Plan furnished to the Association in April 2003, and referred to in paragraph 1(a) of

Schedule 4 to this Agreement which sets out details of all procedures, guidelines, timetables and criteria required for the Project, including the Project Training Plan, the Project Financial Management Manual and other financial, institutional and implementation arrangements relating to the carrying out of the Project, as such Project Implementation Plan may be amended from time to time by agreement between the Borrower and the Association;

(p) “Project Management Unit” means the Project Management Unit referred to in paragraph 4(b) of Schedule 4 to this Agreement;

(q) “Project Training Plan” means the Project Training Plan designed for purposes of the Project to be included in the Project Implementation Plan;

(r) “Resettlement Action Plans” means the Resettlement Action Plans furnished to the Association in April 2003, as such Resettlement Action Plans may be amended from time to time by agreement between the Borrower and the Association;

(s) “Resettlement Framework” means the Resettlement Framework furnished to the Association in April 2003, as such Resettlement Framework may be amended from time to time by agreement between the Borrower and the Association;

(t) “Revenue Account” means the Revenue Account of the Borrower;

(u) “Second Generation Special Account” means the account referred to in Section 2.02(c) of this Agreement;

(v) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;

(w) “Steering Committee” means the Steering Committee referred to in paragraph 4(a) of Schedule 4 to this Agreement;

(x) “TK” or “Taka” means the currency of the Borrower;

(y) “Union Roads” means erstwhile Rural Roads 1 of the Borrower; and

(z) “Upazila Roads” means erstwhile Feeder Roads of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred thirty-eight million Special Drawing Rights (SDR 138,000,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a separate special deposit account in Bangladesh Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) The Borrower may open and maintain in Taka for the purposes of the Project a Second Generation Special Account in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set off, seizure and attachment. Deposits into, and payments out of, the Second Generation Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ($3/4$ of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on June 1 and December 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 1 and December 1 commencing December 1, 2013, and ending June 1, 2043. Each installment to and including the installment payable on June 1, 2023, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate

agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and to this end shall, through LGED, carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, resettlement and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account and the Second Generation Special Account for each fiscal year audited, in accordance with auditing standards and terms of reference acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02 (a) Without limitation upon the Borrower's progress reporting obligations set out in paragraph 6 of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association a financial monitoring report in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Termination

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Secretary, the Additional Secretary, any Joint Secretary, Deputy Secretary, Senior Assistant Secretary, Assistant Secretary, Joint Chief, Deputy Chief, Senior Assistant Chief or Assistant Chief of the Economic Relations Division of the Ministry of Finance of the Borrower are each designated as a representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:

Facsimile:

Telex:

BAHIRSAMPAD
88028113088
Dhaka

642226 SETU BJ

For the Association:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable address:

Facsimile:

Telex:

or
INDEVAS
Washington, D.C.

(202) 477-6391

248423 (MCI)

64145 (MCI)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Dhaka, People's Republic of Bangladesh, as of the day and year first above written.

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ Mirza Tasadduq Hossain Beg

Authorized Representative

ASSOCIATION

INTERNATIONAL

DEVELOPMENT

By /s/ Frederick Temple

Country Director
Bangladesh

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Civil works:		
(a) Periodic Maintenance	15,300,000	60%
(b) Other civil works	96,900,000	80%
(2) Goods	1,460,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for items procured locally
(3) Consultants services and training:		
(a) Training	740,000	100%
(b) Consultants' services	9,500,000	80%
(4) Incremental Operating Costs	300,000	80% in Fiscal Year 2004 and 50% thereafter
(5) Unallocated	13,800,000	
TOTAL	<u>138,000,000</u>	

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2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term “Incremental Operating Costs” means the costs of salaries and allowances of additional staff employed by LGED exclusively for purposes of the Project but excluding the salaries of the Borrower’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals may be made, in an aggregate amount not exceeding the equivalent of: (i) SDR 1,450,000 in respect of Category (1); and (ii) SDR 2,180,000 in respect of Category (3) on account of payments made for expenditures before that date but after April 1, 2003.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for: (i) expenditures for civil works under contracts costing less than \$500,000 equivalent each; (ii) expenditures for goods under contracts costing less than \$300,000 equivalent each; (iii) expenditures for services under contracts costing less than: (A) \$100,000 equivalent each in the case of consulting firms; and (B) \$50,000 equivalent each in the case of individual consultants; (iv) training costs; and (v) Incremental Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to provide rural communities with improved access to social services and economic opportunities, and to enhance the capacity of the Borrower's agencies and institutions to better manage rural transport infrastructure.

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Improvement of Upazila Roads

Improvement of rural access in 21 Project districts through paving and minor widening works to be carried out in three phases on about 1,100 km of existing Upazila Roads.

Part B: Improvement of Union Roads

Improvement of rural access in 21 Project districts through paving and strengthening works to be carried out in three phases on about 500 km of Union Roads.

Part C: Periodic Maintenance and Minor Rehabilitation of Upazila Roads

Reduction of the periodic backlog in 21 Project districts through overlaying, resealing and/or minor rehabilitation in four yearly phases on about 1,500 km of key Upazila Roads.

Part D: Construction of Culverts and Bridges on Union Roads

Improvement of rural access by making about 5,000 km of Union Roads passable throughout the year in the 21 Project districts through construction of about 15,000 linear meters of missing small culverts and/or bridges.

Part E: Improvement and Construction of Rural Markets and River Jetties

Improvement and/or construction of about 150 rural markets and about 45 river jetties to facilitate the exchange of goods and commodities in the 21 Project districts.

Part F: Addressing Social and Environmental Aspects

Mitigation of the social and environmental impacts of the civil works components of the Project, including assisting in the carrying out of relocation programs and the implementation of the Frameworks and Plans.

Part G: Supervision, Design, Monitoring and Quality Audit

Provision of technical services to ensure timely, quality and cost effective construction, maintenance and rehabilitation of the culverts, small bridges, markets, river jetties and other works included in the Project.

Part H: Institutional Strengthening of LGED and Local Government Capacity Building

Institutional strengthening of LGED and capacity building of local government institutions through: (i) the implementation of a focused Institutional Strengthening Action Plan to enhance the key elements of LGED's policy framework and operating capabilities; (ii) the training of LGED staff to implement essential new business processes; (iii) local government capacity building initiatives; and (iv) rural road transport safety activities.

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits", published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Prequalification

Bidders for works estimated to cost \$5,000,000 equivalent or more per contract shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$300,000 equivalent or more each.

(c) Notification

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$800,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) Works estimated to cost less than \$5,000,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured: (i) if available locally, under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines; and (ii) if not available locally, under contracts awarded on the basis of international shopping procedures in accordance with the provisions of the said paragraphs 3.5 and 3.6.

3. Community Participation

Works consisting of off-pavement maintenance, tree nursing and related works estimated to cost less than \$10,000 equivalent per contract, up to an aggregate amount not to exceed \$2,500,000 equivalent shall be procured in accordance with procedures acceptable to the Association through community participation of women members of labor and/or landless contracting societies.

4. Procurement of Small Works

Works estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$4,500,000 equivalent which relate to: (i) the supply and planting of saplings; and (ii) the implementation of environment management, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract for goods estimated to cost the equivalent of \$300,000 or more, and (ii) the first contract for goods, irrespective of value, to be procured under the national competitive bidding procedures provided for in this Schedule, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for works estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost the equivalent of less than \$300,000 per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Project auditing services and services relating to institutional development under the Project, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

3. Single Source Selection

Services which are estimated to cost less than \$50,000 per contract, may with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. (a) The Borrower shall carry out the Project in accordance with the Project Implementation Plan and, except as the Association shall otherwise agree, the Borrower shall not amend or waive any provision of the Project Implementation Plan if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

(b) The Borrower shall: (i) maintain each of the following in a form and substance satisfactory to the Association, namely, the Environmental Framework, the Environmental Code of Practice, the Environmental Framework Management Plans, the Resettlement Framework, the Resettlement Action Plans, the Indigenous Peoples' Development Plans; and (ii) implement the said Frameworks and Plans in accordance with the objectives, policies, procedures, time schedules and other provisions set forth in the Frameworks and Plans.

(c) The Borrower shall implement the Institutional Strengthening Action Plan (ISAP) in accordance with the guidelines and methodology agreed with the Association.

(d) The Borrower shall refrain from taking any action which shall prevent or interfere with the implementation of the Frameworks and Plans and the Institutional Strengthening Action Plan.

(e) The Borrower shall take such action as may be necessary to acquire as and when necessary land needed for the carrying out of the Project and shall do so in accordance with the Resettlement Framework.

2. (a) The Borrower shall starting from FY 2005/2006 and for the duration of the Project endeavor to provide in its Revenue Account funds adequate to cover at least 20% of the training budget for LGED.

(b) The Borrower shall endeavor to increase by at least 5% in real terms starting from FY2004/2005 and for the duration of the Project funds needed to cover the estimated annual maintenance expenditures of the LGED managed portion of the road network.

(c) The Borrower shall starting from FY2004/2005 furnish to the Association details of the amounts allocated to LGED in the Annual Development Program within 30 days of approval of the Annual Development Program.

3. (a) The Borrower shall: (i) continue to conduct annual monitoring of the environmental impacts of Project implementation for at least the two years immediately

following the Closing Date; and (ii) employ not later than the Closing Date qualified consultants to complete an independent impact evaluation report with respect to the implementation of the Resettlement Framework, the Resettlement Action Plans and the Indigenous Peoples' Development Plans, and the outcomes thereof, all in accordance with time schedules and format agreed with the Association.

(b) Subject to the provisions in the second sentence of this subparagraph (b), the Borrower shall finance and implement only those improvement works on Upazila Roads that have been identified and listed in the Project Implementation Plan. Any additional and/or replacement Upazila Roads improvement works may only be financed and/or implemented by the Borrower if such works have, to the satisfaction of the Association, been assessed in terms of techno-economic feasibility and screened for social and environmental impacts.

(c) The Borrower shall no later than 45 days after the end of each calendar quarter provide the Association with a Quarterly Progress Report on the implementation of the Project as specified in the Project Implementation Plan.

4. (a) The Borrower shall establish no later than June 30, 2003, and thereafter maintain a Steering Committee in a form and with functions, membership, staffing and resources satisfactory to the Association. The Chairman of the Steering Committee shall be the Secretary of the Local Government Division of the Borrower's Ministry of Local Government, Rural Development and Cooperatives. The Steering Committee shall be responsible for the overall coordination of the Project.

(b) The Borrower shall establish no later than June 30, 2003, and thereafter maintain within LGED a Program Management Unit in a form and with functions, membership, staffing and resources satisfactory to the Association. PMU's functions shall include: (i) budget preparation and accounting; (ii) receiving and transferring Project funds; (iii) making payments for eligible Project expenditures; (iv) procurement of goods and services; (v) maintenance of books and bank accounts; (vi) monitoring and cash flow management; (vii) financial reporting to the Borrower, the Association and other stakeholders; and (viii) the implementation of social and environmental aspects of the Project.

5. (a) The Borrower shall continue to employ a Project Coordinator with qualifications and experience satisfactory to the Association. The Project Coordinator's functions shall include: (i) the coordination and supervision of Project activities; (ii) authorizing the issuing of payments through checks and/or transfer; and (iii) approval of payment requests for counterpart funds and withdrawal of funds from the proceeds of the Credit.

(b) The Borrower shall no later than June 30, 2003, appoint a Finance Manager with qualifications and experience satisfactory to the Association to be the overall supervisor of the financial management system established under the Project.

6. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) furnish to the Association in the month of June each year, a report, of such scope and in such detail as the Association shall reasonably request, on progress made in the carrying out of the Project during the twelve-month period immediately preceding said month of June, such progress to be measured against the indicators set forth in Schedule 6 to this Agreement; and

(c) review with the Association in the month of July each year progress made in the carrying out of the Project and the attainment of the objectives thereof, such reviews to be based on the reports referred to in subparagraph (b) above; and thereafter take, or cause to be taken, all such action which shall have been agreed upon by the Borrower and the Association during such reviews as necessary for the efficient execution of the Project and the achievement of the objectives thereof.

7. The Borrower shall no later than December 31, 2005, carry out jointly with the Association a midterm review of the progress made in carrying out the Project. The Midterm Review shall cover: (i) an assessment of: (A) progress made in carrying out work programs prepared for the Project, (B) training provided under the Project, (C) procurement under the Project, (D) the extent to which actions described in the indicators set out in Schedule 6 to this Agreement have been carried out, and (E) plans made or proposed for updating said indicators; and (ii) such other Project related matters as the Borrower or the Association shall reasonably request.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means Categories (1), (2), (3) and (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods, works and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement;

(c) the term “Authorized Allocation” means an amount equivalent to \$14,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$8,000,000, until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 20,000,000; and

(d) the term “Second Generation Special Account Advance” means an amount equivalent to \$5,000,000 to be withdrawn from the Special Account and deposited into the Second Generation Special Account pursuant paragraph 6(a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule, including the provisions of paragraph 6 of this Schedule with respect to payments into the Second Generation Special Account.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

- (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
- (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures either directly or through the Second Generation Special Account. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures directly or through the Second Generation Special Account.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01(b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account and the Second Generation Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account or the Second Generation Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, or cause LGED to, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account or the Second Generation Special Account, where relevant, (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be; and (iii) no further advances by the Borrower into the Second Generation Special Account shall be made until LGED has provided such evidence to the Association or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account or the Second Generation Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, or cause LGED to, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account or the Second Generation Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

7. (a) The Borrower may withdraw from the Special Account and deposit into the Second Generation Special Account funds to assist LGED to pay for goods, works and services required under the Project; provided that the Borrower shall at no time cause amounts withdrawn from the Special Account and held in the Second Generation Special Account to exceed the Second Generation Special Account Advance; and provided further that withdrawals from the Second Generation Special Account shall be made only for works executed, goods supplied and services and training provided.

(b) Any payment from the Second Generation Special Account shall be justified to the Association by documentation and other evidence showing that payment was made exclusively for eligible expenditures.

(c) If the Association or the Borrower shall have determined that any outstanding amount in the Second Generation Special Account will not be required to cover further payments for eligible expenditures, LGED shall, upon notice from the Association or the Borrower, promptly refund such outstanding amount to the Special Account.

SCHEDULE 6

Performance Indicators

The performance indicators for the Project shall include the following, said indicators being subject to modification by agreement between the Borrower and the Association:

A. Sector Indicators

1. Improved rural transport access to social services and economic opportunities.
2. Enhanced capacity to better manage rural transport infrastructure.

B. Outcome/Impact Indicators

1. 25% reduction by the end of the Project in average travel time and transport costs in the Project area.
2. 20% increase by the end of the Project of roads categorized as in good condition in the Project area.
3. Employment estimated at 24,000 person years created in the Project area by the end of the Project.
4. Cumulative 15% reduction in annual LGED operating costs relative to annual budget.
5. 30% increase by the end of the Project in revenue mobilization by the selected local government institutions (Union Parishads) participating, on a pilot basis, in the Project.
6. Increase by at least 5% annually in real terms in maintenance funding for secondary road network between FY2004 to FY2009.

C. Output Indicators

1. (a) About 1100 km of Upazila Roads and 500 km of Union Roads are improved.
(b) About 15,000 km of minor bridges and/or culverts on Union Roads are constructed to expand by 5,000 km continuously in the Union Road network.
(c) Maintenance/rehabilitation of 1500 km of Upazila Roads.

2. Improvement of 150 Growth Center Markets and 45 river jetties within the Project area.
3. Implementation of Institutional Strengthening Action Plan for LGED.
4. Implementation of all applicable Resettlement Framework, Environmental Framework, Resettlement Action Plans, Environmental Management Plans and Indigenous Peoples' Development Plans.