

CONFORMED COPY

CREDIT NUMBER 2567 BD

Development Credit Agreement
(Jute Sector Adjustment Credit)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated February 25, 1994

CREDIT NUMBER 2567 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated February 25, 1994, between PEOPLE'S REPUBLIC OF BANGLADESH (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated December 23, 1993 from the Borrower describing a program of actions, objectives and policies designed to strengthen the jute sector of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in the financing of urgently needed imports required during such execution; and

(B) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit in four tranches as hereinafter provided, consisting of three tranches out of the Category A Proceeds of the Credit (as hereinafter defined) and a single tranche out of the Category B Proceeds of the Credit (as hereinafter defined);

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, with the modifications thereof set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 9, shall be modified to read:

"'Project' means the imports and other activities that may be financed out of the proceeds of the Credit pursuant to the provisions of Schedule 1 to the Development Credit Agreement,";

(b) Section 9.06 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit."; and

(c) the last sentence of Section 3.02 is deleted.

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) "SITC" means the Standard International Trade Classification, Revision 3 (SITC, Rev. 3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev. 3 (1986);

(b) "Order" means the Bangladesh Industrial Enterprises (Nationalization) Order, 1972 (President's Order No. 27 of 1972) as amended from time to time providing, inter alia, for the nationalization of certain industrial enterprises and for the establishment of corporations for the purposes of control, supervision and coordination of the nationalized and some other enterprises;

(c) "BJMC" means the Bangladesh Jute Mills Corporation established under the Order and exercising all the powers of a corporation (as defined in the Order) in respect of the Public Jute Mills (as hereinafter defined);

(d) "Public Jute Mills" means industrial enterprises engaged in the processing of raw jute, and the manufacture and distribution of jute products which were nationalized by the Borrower and placed under BJMC pursuant to the provisions of the Order and enumerated in the First Schedule thereof as such Schedule is amended from time to time;

(e) "Private Jute Mills" means industrial enterprises engaged in the processing of raw jute, and the manufacture and distribution of traditional jute products (sacking, hessian and carpet backing cloth) which are established and operated under the laws of the Borrower;

(f) "Mill" means, as the context may require, a Public Jute Mill or a Private Jute Mill and "Mills" means, as the context may require, Public Jute Mills or Private Jute Mills or both;

(g) "BJC" means the Bangladesh Jute Corporation established by the Borrower under The Bangladesh Jute Corporation Ordinance, 1985 (Ordinance No. xxx of 1985);

(h) "Private Banks" means a statistical category of banks as used by Bangladesh Bank in its publication "Scheduled Bank Statistics", and includes banks incorporated in Bangladesh in which the Borrower has a minority holding, and foreign banks doing business in Bangladesh;

(i) "Public Banks" means commercial banks and financial institutions wholly-owned by the Borrower;

(j) "Debt Write Off, Restructuring and Interim Financing Arrangement" means the Borrower's Debt Write Off, Restructuring and Interim Financing Arrangement dated December 30, 1993 to write off part of the debt of BJC and the Public Mills closed under the Program and, to restructure the debt of the Mills owed to Public Banks and Private Banks and to provide interim financing during Fiscal Years 1994-1996;

(k) "Participating Banks" means Public Banks and Private Banks that participate in the Debt Restructuring and Interim Financing Arrangement;

(l) "Fiscal Year" means the Fiscal Year of the Borrower beginning on July 1 and ending on June 30 of the following year;

(m) "Bangladesh Bank" means the Bangladesh Bank established by the Borrower under the Bangladesh Bank Order, 1972 (President's Order No. 127 of 1972) for the purpose of carrying out the business of central banking;

(n) "Category A Proceeds" means an amount of the Credit equivalent to SDR 135,000,000 to be made available in three tranches subject to the provisions of paragraph 4 (A) of Schedule 1 to this Agreement; and

(o) "Category B Proceeds" means an amount of the Credit equivalent to SDR 40,000,000 to be made available in a single tranche subject to the provisions of paragraph 4 (B) of Schedule 1 to this Agreement.

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 seventy-five million Special Drawing Rights (SDR 175,000,000).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1996 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 January 1 and July 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each January 1 and July 1 commencing July 1, 2004 and ending January 1, 2034. Each installment to and including the installment payable on January 1, 2014 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 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 and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedules 3 and 4 of this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

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 2 to this Agreement.

Section 3.03. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with consistently maintained sound accounting practices the expenditures financed out of the proceeds of the Credit.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section for each fiscal year audited, in accordance with appropriate auditing principles 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 nine months after the end of each such year, a certified copy of the 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 said records and accounts and the audit thereof as the Association shall 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 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 audits 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.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Effective Date; 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

Representatives of the Borrower; Addresses

Section 6.01. The Secretary or the Additional Secretary or any Joint Secretary, Deputy 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 11.03 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
Dhaka, Bangladesh

Cable address:

BAHIRSAMPAD
Dhaka

Telex:

642226 SETU BJ

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

197688 (TRT),
248423 (RCA),
64145 (WUI) or
82987 (FTCC)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ M.K. Ejazul Huq

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Gobind T. Nankani

Acting Regional Vice President
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. Subject to the provisions set forth or referred to in this Schedule, the proceeds of the Credit may be withdrawn from the Credit Account for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods required during the execution of the Program and to be financed out of such proceeds.

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) expenditures for goods included in the following SITC groups or sub-groups, or any successor groups or sub-groups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

Group	Sub-group	Description of Items
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semi-precious stones, unworked or worked
718 nuclear	718.7	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for reactors
728.43	-	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

- (b) expenditures in the currency of the Borrower or for goods supplied from the territory of the Borrower;
- (c) payments made for expenditures prior to the date of this Agreement;
- (d) expenditures for goods procured under contracts costing less than \$50,000 equivalent;
- (e) expenditures for goods supplied under a contract which any national or international financing institution or agency other than the Association shall have financed or agreed to finance;
- (f) expenditures for goods intended for a military or para-military purpose or for luxury consumption; and
- (g) expenditures for items in any single SITC Division in excess of 25% of the total amount of the Credit.

3. Withdrawals for expenditures under contracts for the procurement of goods estimated to cost the equivalent of less than \$2,000,000 may be required by the Association to be upon the basis of statements of expenditure under such terms and conditions as the Association shall specify.

4. No withdrawal shall be made and no commitment shall be entered into to pay amounts to or on the order of the Borrower in respect of expenditures to be financed out of the: (A) Category (A) Proceeds of the Credit after the aggregate of the Category A Proceeds of the Credit withdrawn from the Credit Account and the total amount of such commitments shall have reached: (a) the equivalent of SDR 35,000,000, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association: (i) that the macroeconomic policy framework of the Borrower is consistent with the Program; (ii) with the progress achieved by the Borrower in the carrying out of the Program; and (iii) that the actions described in Schedule 3 to this Agreement have been taken; and (b) thereafter, the equivalent of SDR 85,000,000, unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association: (i) that the macroeconomic policy framework of the Borrower is consistent with the Program; (ii) with the progress achieved by the Borrower in the carrying out of the Program; and (iii) that the actions described in Schedule 4 to this Agreement have been taken; and (B) Category B Proceeds of the Credit unless the Association shall be satisfied, after an exchange of views as described in Section 3.01 of this Agreement based on evidence satisfactory to the Association: (i) that the macroeconomic policy framework of the Borrower is consistent with the Program; (ii) with the progress achieved by the Borrower in the carrying out of the Program; and (iii) that the actions described in Schedule 5 to this Agreement have been taken.

5. If, after the exchange of views described in paragraph 4 above, the Association shall have given notice to the Borrower that the progress achieved and actions taken are not satisfactory and, within 90 days after such notice, the Borrower shall not have achieved progress and taken actions satisfactory to the Association, then the Association may, by notice to the Borrower, cancel the unwithdrawn amount of the Credit or any part thereof.

SCHEDULE 2

Procurement

1. Contracts for the procurement of goods estimated to cost the equivalent of \$5,000,000 or more each shall be awarded through international competitive bidding in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), subject to the following modifications:

(a) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid; such advertisements should be placed in at least one newspaper of general

circulation in the Borrower's country and, in addition, in at least one of the following forms:

- (i) a notice in the United Nations publication, Development Forum, Business Edition; or
 - (ii) an advertisement in a newspaper, periodical or technical journal of wide international circulation; or
 - (iii) a notice to local representatives of countries and territories referred to in the Guidelines, that are potential suppliers of the goods required."
- (b) The following is added at the end of paragraph 2.21 of the Guidelines:
- "As a further alternative, bidding documents may require the bidder to state the bid price in a single currency widely used in international trade and specified in the bidding documents."
- (c) Paragraphs 2.55 and 2.56 of the Guidelines are deleted.

2. Contracts for the procurement of goods estimated to cost the equivalent of less than \$5,000,000 shall be awarded:

- (a) by purchasers required to follow the Borrower's public procurement procedures for the importation of goods, on the basis of such procedures, provided that such procedures shall have been found acceptable by the Association; and
- (b) by other purchasers, in accordance with established commercial practice, provided that such contracts shall be awarded on the basis of evaluation and comparison of quotations obtained from suppliers from at least two countries, except that direct contracting procedures acceptable to the Association may be used where considered appropriate under paragraph 3.5 of the Guidelines.

3. Subject to the prior approval of the Association, commonly traded commodities may be procured through organized international commodity markets or other channels of competitive procurement acceptable to the Association, in accordance with procedures acceptable to the Association.

4. With respect to each contract referred to in paragraph 1 of this Schedule, the Borrower shall furnish to the Association, prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Association shall reasonably request.

5. With respect to each contract referred to in paragraphs 2 and 3 of this Schedule, the Borrower shall furnish to the Association, prior to the submission to the Association of the first application for withdrawal of funds from the Credit Account in respect thereof, such documentation and information as the Association may reasonably request to support withdrawal applications in respect of such contract.

6. The provisions of the preceding paragraph 5 of this Schedule shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

SCHEDULE 3

Actions Referred to in Paragraph 4 (A)(a)(iii) of Schedule 1 to this Agreement

1. The Borrower has: (a) disposed of the equipment of those Public Mills which have already been closed under the Program and such equipment of the Mill already downsized under the Program which will not be required for the operation of such downsized Mill; and (b) reduced loom capacity in the Public Jute Mills by at least 2,700 looms through the closure of at least five such Mills and substantially downsizing at least one such Mill.

2. The Borrower has: (a) reduced the number of permanent employees in the Public Jute Mills by about 8,000; and (b) introduced mandatory retirement age for workers in the public sector as defined under the Borrower's laws and regulations.

3. The Borrower has:

(a) ensured that Participating Banks have forgiven and written off 30 percent of the debt owed to them by BJC calculated in accordance with methodology satisfactory to the Association; and

(b) fully discharged, on behalf of BJC, its remaining outstanding debt obligations to Participating Banks and other Public Banks and Private Banks, calculated in accordance with methodology satisfactory to the Association, through, inter alia, the issuance of bonds by the Borrower to such Participating Banks and other Public Banks and Private Banks under terms and conditions satisfactory to the Association.

4. The Borrower has:

(a) ensured that Participating Banks have forgiven and written off 30 percent of the debt owed to them by the Public Jute Mills closed under the Program calculated in accordance with methodology satisfactory to the Association; and

(b) fully discharged, on behalf of the Public Jute Mills closed under the Program, their remaining outstanding debt obligations to Participating Banks and other Public Banks and Private Banks, calculated in accordance with methodology satisfactory to the Association, through, inter alia, the issuance of bonds by the Borrower to such Participating Banks and other Public Banks and Private Banks under terms and conditions satisfactory to the Association.

5. The Borrower has: (a) offered for sale to the private sector at least nine Public Jute Mills; and (b) has reduced its share in total loom capacity in the jute industry, taking account of the reduction pursuant to paragraph 1 (b) hereof, to not more than 7,000 looms.

6. The Borrower has completed the liquidation of BJC.

7. The Borrower has ensured that Participating Banks have concluded arrangements, satisfactory to the Association, for restructuring the debt owed to them by the Public Jute Mills referred to in paragraph 5 (a) hereof, such restructuring to be based on the following, among other, principles:

(a) the total amount of the outstanding debt shall be calculated in accordance with methodology satisfactory to the Association;

(b) one-third of the total outstanding debt of each Mill shall be forgiven and written off by the Participating Banks;

(c) the remaining two-thirds of the outstanding debt of each Mill shall be rescheduled with a new amortization period of not less than 15 years and a grace period of not less than 3 years;

(d) principal repayments shall be structured in gradually rising installments; and

(e) the interest rate during the first three years shall be 0% and thereafter 3% per annum on the remaining outstanding balance.

8. The Borrower has ensured that Participating Banks have: (a) concluded arrangements, satisfactory to the Association, for restructuring the debt owed to them by those Private Jute Mills that have agreed to participate in the Debt Write Off, Restructuring and Interim Financing Arrangement, such restructuring to be based, among others, on the principles set forth in sub-paragraphs (a) through (e) of paragraph 7 hereof; and (b) instituted legal proceedings for debt recovery against those Private Jute Mills that have refused to participate in such Arrangement.

9. The Borrower has compensated the Participating Banks, in accordance with satisfactory criteria, for the write off of BJC debt pursuant to paragraph 3 (a) of this Schedule and the write off of the debt of the Public Mills closed under the Program pursuant to paragraph 4 (a) of this Schedule, and for the restructuring of the debt of Mills pursuant to paragraphs 7 and 8 of this Schedule through the issuance of bonds under terms and conditions satisfactory to the Association.

10. The Borrower has:

(a) ensured that beginning July 1, 1993, working capital requirements and operational losses of the Mills are not financed by the Participating Banks except for such acceptable periods of time and up to an estimated amount of such working capital requirements and operational losses calculated in accordance with methodology satisfactory to the Association, such financing to be made available on the following basis where applicable:

- (i) financing of working capital requirements by the Participating Banks to be against the security of export revenue of the Mills;
- (ii) financing on a grant basis of the estimated operational losses of the Public Jute Mills as follows:
 - (A) 100% of previous Fiscal Year's operational losses during FY 1993-94;
 - (B) 85% of previous Fiscal Year's financing for such losses during FY 1994-95; and
 - (C) 85% of previous Fiscal Year's financing for such losses during FY 1995-96;
- (iii) financing on a grant basis of up to 2/3 of the estimated operational losses in case of those Private Jute Mills that have agreed to participate in the Debt Write Off, Restructuring and Interim Financing Arrangement, with at least 1/3 of such losses to be financed by the private shareholders of such Mills through additional capital contribution;

(b) ensured that except as provided in sub-paragraph (a) of this paragraph 10, no additional financial support is made available to cover operational losses of the Public Jute Mills, and of those Private Jute Mills that have agreed to participate in the Debt Write Off, Restructuring and Interim Financing Arrangement without the prior agreement of the Association;

(c) ensured that, subject to sub-paragraph (f) of this paragraph 10, Public Jute Mills sold under the Program continue to receive financing from the Participating Banks under clause (iii) of sub-paragraph (a) of this paragraph 10 except where such Mills, after being sold, arrange additional financing arrangements on their own to cover operational losses;

(d) ensured that those Public Jute Mills that have not been offered for sale under the Program in accordance with the timetable provided to the Association have been declared ineligible by the Participating Banks for receiving financing under sub-paragraph (a) of this paragraph 10;

(e) ensured that those Public Jute Mills that do not reduce their operational losses during FY 1994-95 to at least 85% of the level of such losses during the previous Fiscal Year are closed;

(f) ensured that, beginning December 31, 1994, Participating Banks have terminated all financing of the working capital requirements and operational losses of the Public Jute Mills sold under the Program and of the Private Jute Mills under the Debt Write Off, Restructuring and Interim Financing Arrangement; and

(g) fully reimbursed the Participating Banks for their financing of the operational losses of the Private Jute Mills and the Public Jute Mills in accordance with the provisions of sub-paragraph (a) of this paragraph 10 through, inter alia, the issuance of bonds under terms and conditions satisfactory to the Association.

11. The Borrower has ensured that Bangladesh Bank has issued new prudential guidelines, satisfactory to the Association, to govern all lending by Public Banks and Private Banks to the Mills with effect from January 1, 1995.

12. The Borrower has maintained a macroeconomic framework including wage policies in the jute sector satisfactory to the Association with the objective of restoring and maintaining profitability in the jute industry.

SCHEDULE 4

Actions Referred to in Paragraph 4 (A)(b)(iii)
of Schedule 1 to this Agreement

1. The Borrower has: (a) offered for sale to the private sector at least nine Public Jute Mills in addition to those offered for sale pursuant to paragraph 5 (a) of Schedule 3 to this Agreement; and (b) has reduced its share in total loom capacity in the jute industry to not more than 4,000 looms.

2. The Borrower has ensured that Participating Banks have concluded arrangements, satisfactory to the Association, for restructuring the debt owed to them by the Public Jute Mills referred to in paragraph 1 (a) hereof, such restructuring to be based, inter alia, on the principles set forth in sub-paragraphs (a) through (e) of paragraph 7 of Schedule 3 to this Agreement.

3. The Borrower has:

(a) ensured that Participating Banks have forgiven and written off 30 percent of the debt owed to them by the Public Jute Mills closed under the Program calculated in accordance with methodology satisfactory to the Association; and

(b) fully discharged, on behalf of the Public Jute Mills closed under the program, their remaining outstanding debt obligations to Participating Banks and other Public Banks and Private Banks, calculated in accordance with methodology satisfactory to the Association, through, inter alia, the issuance of bonds by the Borrower to such Participating Banks and other Public Banks and Private Banks under terms and conditions satisfactory to the Association.

4. The Borrower has:

(a) ensured that Participating Banks have continued to refrain from financing the working capital requirements and operational losses of the Public Jute Mills except for such acceptable period of time and up to an estimated amount of such working capital requirements and operational losses calculated in accordance with methodology satisfactory to the Association, such financing to be made available on the basis of the provisions set forth in clauses (i) and (ii) of sub-paragraph (a) of paragraph 10 of Schedule 3 to this Agreement;

(b) ensured that except as provided in sub-paragraph (a) of this paragraph 4, no additional financial support is made available to cover operational losses of the Public Jute Mills without the prior approval of the Association;

(c) ensured that Public Jute Mills sold under the Program do not continue to receive financing from the Participating Banks under sub-paragraph (a) of this paragraph 4;

(d) ensured that those Public Jute Mills that have not been offered for sale under the Program in accordance with the timetable provided to the Association have been declared ineligible by the Participating Banks for receiving financing under sub-paragraph (a) of this paragraph 4;

(e) ensured that those Public Jute Mills that do not reduce their operational losses during FY 1995-96 to at least 85% of the level of such losses during the previous Fiscal Year are closed;

(f) ensured that, beginning June 30, 1996, Participating Banks have terminated all financing of the working capital requirements and operational losses of the Public Jute Mills under the Debt Write Off, Restructuring and Interim Financing Arrangement; and

(g) fully reimbursed the Participating Banks for their financing of the operational losses of the Public Jute Mills under the Debt Write Off, Restructuring and Interim Financing Arrangement through, inter alia, the issuance of bonds under terms and conditions satisfactory to the Association.

5. The Borrower has compensated the Participating Banks, in accordance with satisfactory criteria, for the write off of the debt of the Public Jute Mills closed under the program pursuant to paragraph 3 (a) of this Schedule, and for the restructuring of the debt of the Mills pursuant to paragraph 2 of this Schedule through the issuance of bonds under terms and conditions satisfactory to the Association.

6. The Borrower has disposed of the equipment of the Public Mills closed pursuant to paragraph 1 (b) of Schedule 3 to this Agreement and such equipment of the Mills downsized pursuant to such paragraph which will not be required for the operation of

such downsized Mill.

7. The Borrower has maintained a macroeconomic framework including wage policies in the jute sector satisfactory to the Association with the objective of restoring and maintaining profitability in the jute industry.

8. The Borrower has formulated methodology, satisfactory to the Association, for adjusting the rate of interest on bonds issued under the Program to be applicable in the fourth and subsequent years from the date of issue of the bonds and has informed the bondholders of such methodology, and, where applicable, has adjusted the rate of interest accordingly.

SCHEDULE 5

Actions Referred to in Paragraph 4 (B)(iii) of Schedule 1 to this Agreement

1. The Borrower has:

(a) offered for sale to the private sector a Public Jute Mill under terms and conditions satisfactory to the Association and has taken all such measures as may be necessary or required for purposes of implementing such sale transaction, including without limitation, establishing satisfactory procedures for restructuring, valuation and preparation of such Mill for sale; and

(b) where no tenders are received in response to such offer or those that are received are not responsive, has revised the terms and conditions of such offer in a manner satisfactory to the Association and has taken such other steps which, in the view of the Association, shall be adequate to making such Mill attractive for purchase by the private sector.

2. The Borrower has ensured that Participating Banks have concluded arrangements, satisfactory to the Association, for restructuring the debt owed to them by the Public Jute Mill referred to in paragraph 1 hereof based on the following, among other, principles:

(a) the total amount of the outstanding debt shall be calculated in accordance with methodology satisfactory to the Association;

(b) at least one-third of the total outstanding debt of such Mill shall be forgiven and written off by the Participating Banks;

(c) the remaining outstanding amount of debt of such Mill shall be rescheduled with a new amortization period of not less than 15 years and a grace period of not less than 3 years;

(d) principal repayments shall be structured in gradually rising installments; and

(e) the interest rate during the first three years shall be 0% and thereafter 3% per annum on the remaining outstanding balance.

3. The Borrower has compensated the Participating Banks, in accordance with satisfactory criteria, for the restructuring of the debt of the Public Jute Mill pursuant to paragraph 2 of this Schedule through the issuance of bonds under terms and conditions satisfactory to the Association.

4. The Borrower has:

(a) ensured that working capital requirements and operational losses of the Public Jute Mill referred in paragraph 1 hereof are not financed by the Participating Banks except for such acceptable periods of time and up to an estimated amount of such working capital requirements and operational losses calculated in accordance with methodology satisfactory to the Association, such financing to be made available on the following basis:

(i) financing of working capital requirements by the Participating Banks to be against the security of export revenue of such Mill; and

(ii) financing on a grant basis of the operational losses of such Mill on the basis of the following criteria if applicable:

- (A) 100% of previous Fiscal Year's operational losses during FY 1993-94;
- (B) 85% of previous Fiscal Year's financing for such losses during FY 1994-95; and
- (C) 85% of previous Fiscal Year's financing for such losses during FY 1995-96.

(b) ensured that except as provided in sub-paragraph (a) of this paragraph 4, no additional financial support is made available to cover operational losses of such Public Jute Mill without the prior agreement of the Association; and

(c) fully reimbursed the Participating Banks for their financing of the operational losses of such Mill in accordance with the provisions of sub-paragraph (a) of this paragraph 4 through, inter alia, the issuance of bonds under terms and conditions satisfactory to the Association.

5. The Borrower has maintained a macroeconomic framework including wage policies in the jute sector satisfactory to the Association with the objective of restoring and maintaining profitability in the jute industry.

