

CONFORMED COPY

CREDIT NUMBER 2246 BD

(National Minor Irrigation Development Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 17, 1991

CREDIT NUMBER 2246 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 17, 1991, 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;

(B) the Borrower intends to contract from the European Economic Community (EEC) a Grant (the EEC Grant) in an amount of sixty-five million European Currency Units (ECUs 65,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the EEC Financing Agreement) to be entered into between the Borrower and EEC; and

WHEREAS 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, with the last sentence of Section 3.02 deleted (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) "BADC" means the Bangladesh Agricultural Development Corporation, a corporation established and operating under the Borrower's Ordinance No. XL of 1975, dated August 8, 1975, as amended to the date of this Agreement;

(b) "Bangladesh Bank" means the bank established for purposes of carrying out the business of central banking under the Bangladesh Bank Order 1972 (P.O. No. 127 of 1972), as may be amended from time to time;

(c) "Contractor" means any private person or private entity complying with the eligibility criteria set forth in Schedule 5 to this Agreement and undertaking the construction and installation of DTWs or pontoon mounted pumps, or related facilities, under the Project;

(d) "Contractor Agreement" means the agreement to be entered into between a Participating Bank and a Contractor pursuant to Section 3.03 (b) of this Agreement;

(e) "DTW" means deep tubewell;

(f) "Dealer" means any private person or private entity complying with the eligibility criteria set forth in Schedule 5 to this Agreement and undertaking the importation of DTWs and/or pontoon mounted pumps and related equipment and spare parts thereof for sale to farmers;

(g) "Dealer Agreement" means the agreement to be entered into between a Participating Bank and a Dealer pursuant to Section 3.03(b) of this Agreement;

(h) "ha" means hectares;

(i) "MPEU" means the Monitoring and Performance Evaluation Unit in the Borrower's Ministry of Agriculture;

(j) "Participating Bank" means any state or privately held credit institution established or operating under the laws of the Borrower, which has been identified as such by the Bangladesh Bank;

(k) "Participation Agreement" means the agreement to be entered into between Bangladesh Bank, acting on behalf of the Borrower, and any Participating Bank pursuant to Section 3.03(a) of this Agreement;

(l) "Special Account A" means the account referred to in Section 2.02 (b) of this Agreement;

(m) "Special Account B" means the account referred to in Section 2.02 (c) of this Agreement;

(n) "Special Accounts" means Special Account A and Special Account B, and "Special Account" means Special Account A when such term is used in Schedule 6 to this Agreement and Special Account B when such term is used in Schedule 7 to this Agreement; and

(o) "Taka" means the currency 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 thirty-eight million one hundred thousands Special Drawing Rights (SDR 38,100,000).

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 and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, 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 respective provisions of Schedule 6 to this Agreement.

(c) The Borrower shall, 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 respective provisions of Schedule 7 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1997, 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 per cent (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 March 15 and September 15 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 March 15 and September 15 commencing September 15, 2001 and ending March 15, 2031. Each installment to and including the installment payable on March 15, 2011 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 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 carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and engineering 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. The Borrower shall enter into and carry out an agreement with Bangladesh Bank, on terms and conditions satisfactory to the Association, regarding the administration by Bangladesh Bank of the facility to be made available to the private sector and BADC under Part A(i), (ii) and (iv) of the Project.

Section 3.03. (a) The Borrower shall cause Bangladesh Bank, acting on behalf of the Borrower, to enter into a Participation Agreement with each Participating Bank, upon terms and conditions satisfactory to the Association, including those set forth in Schedule 5 to this Agreement.

(b) The Borrower shall ensure that Bangladesh Bank shall cause each Participating Bank to enter into a Dealer's Agreement with every Dealer, and a Contractor's Agreement with every Contractor prior to provision of financial assistance under the Project to any Dealer or Contractor, on terms and conditions satisfactory to the Association, including those set forth in Schedule 5 to this Development Credit Agreement.

(c) The Borrower shall ensure that Bangladesh Bank shall cause each Participating Bank providing financial assistance to BADC to enter into an agreement with BADC on the same terms and conditions as a Dealer's Agreement or a Contractor's Agreement as the case may be, and satisfactory to the Association, including those set forth in Schedule 5 to this Development Credit Agreement.

Section 3.04. (a) The Borrower shall exercise its rights under the agreement referred to in Section 3.02 above between the Borrower and Bangladesh Bank, and cause Bangladesh Bank to exercise its rights under each Participation Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit.

(b) Without prejudice to the generality of the foregoing, the Borrower shall monitor (i) compliance with Participation Agreements, Dealer Agreements and Contractor Agreements and the agreements referred to in Section 3.03 (c); and (ii) the use of equipment sold to farmers under the Project to ensure that such equipment is used exclusively for the purposes of the Project.

Section 3.05. Except as the Association shall otherwise agree, procurement of the goods and works 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 3.06. In order to assist the Borrower in carrying out the Project, the Borrower shall employ consultants whose qualifications, experience and terms of reference shall be satisfactory to the Association.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts 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 six 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, 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 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.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall take steps agreed with the Association to ensure that: (a) sale of DTWs and pontoon mounted pumps by the public sector are not subsidized; (b) private and public sector sellers of DTWs and pontoon mounted pumps have, in regard to the sale of such equipment, equal access to foreign exchange, similar tax treatment and similar trade restrictions (to the extent such trade restrictions continue to apply); (c) similar trade terms will be applicable to all suppliers of goods and services under the Project eligible under the "Guidelines for Procurement under IBRD Loans and IDA Credits"; and (d) pricing by the public sector of DTWs and pontoon mounted pumps shall include the full cost of operations of the concerned public sector entity selling such equipment.

Section 5.02. The Borrower shall, by December 31, 1991, take all such actions as shall be necessary to enable farmer groups to acquire legal personality with appropriate powers and functions.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of BADC or for the suspension of its operations.

(b) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur; and

(b) the event specified in paragraph (b) (i) of Section 6.01 of this Agreement shall occur, subject to the proviso of paragraph (b) (ii) of that Section.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) all conditions precedent to the effectiveness of the EEC Financing Agreement (other than, if applicable, the effectiveness of this Agreement) have been fulfilled;

(b) a Project Director with qualifications and experience satisfactory to the Association has been appointed;

(c) the Borrower has taken all necessary measures to: (i) ensure that import duty on DTW components and spare parts is established at a uniform rate of about 15% for all importers, public and private sector; and (ii) issue instructions to concerned officials of the Borrower's Customs Department implementing the uniform, revised rate of import duty referred to in (c) (i) above of this Section;

(d) the Project Proforma for the carrying out of the Project has been approved by the Borrower; and

(e) the Agreement referred to in Section 3.02 of this Development Credit Agreement has been duly executed by, and become binding upon, both parties thereto.

Section 7.02. The following is specified as an additional matter within the meaning of Section 12.02(b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely that the agreement referred to in Section 3.02 of this Development Credit Agreement has been duly executed and has become binding upon both parties thereto in accordance with its terms.

Section 7.03. 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 VIII

Representatives of the Borrower; Addresses

Section 8.01. The Secretary or any Additional Secretary, Joint Secretary, Deputy

Secretary or Assistance 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 8.02. 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/ A.H.S. Ataul Karim

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ A. Karaosmanoglu

Regional Vice President
Asia

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil and		85%

mechanical works under Parts A(i), A(ii) and A (iv) of the Project		
(a) Dealers and Contractors	6,350,000	
(b) BADC	2,470,000	
(2) Equipment and materials under Part A (i), A(ii) and A(iv) of the Project		100% of foreign expenditures and 85% of local expenditures for items procured locally
(a) Dealers and Contractors	13,400,000	
(b) BADC	5,300,000	
(3) Civil and mechanical works under Part A (iii) and B of the Project	3,530,000	85%
(4) Equipment and materials Part A(iii) and B of the Project	3,250,000	100% of foreign expenditures and 85% of local expenditures for items procured locally
(5) Unallocated	3,800,000	
TOTAL	38,100,000	

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; and

(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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures under Categories 1 (b), 2 (b), 3 and 4 of the table in paragraph 1 of this Schedule until the provisions of paragraphs 6, 8(a), 8(b) and 8(d) of Schedule 4 to this Development Credit Agreement have each been complied with.

SCHEDULE 2

Description of the Project

The objective of the Project is to promote growth in agriculture through increased private sector investment in minor irrigation development.

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: Irrigation Development

Irrigation development of about 265,000 ha through:

- (i) New DTWs By Private Sector and BADC: The acquisition and installation by private sector Dealers and Contractors and by BADC of force mode pumping equipment (DTWs) with capacities meeting farmers' demand;
- (ii) Privatization and Rehabilitation of Existing DTWs: The transfer of ownership of all DTWs owned by BADC which are either in working condition or may economically be rehabilitated, to the private sector, the rehabilitation of such DTWs and the disposal of all remaining DTWs owned by BADC;
- (iii) Drainage Canal Improvement by BADC: Deepening and widening of existing drainage channels and the provision of water control structures; and
- (iv) Pontoon Mounted Pump Schemes By Private Sector and BADC: Acquisition and installation of pontoon mounted pumping units by the private sector and BADC and related improvements to drainage channels.

Part B: Demonstration Irrigation Systems by BADC

Provision of about 500 minor irrigation facilities serving about 10,000 ha to demonstrate alternative pumping technologies and approaches to on-farm water distribution and management.

Part C: Environment Protection

- (i) Establishment and operation of a monitoring system to evaluate the impact of surface and groundwater abstraction: (a) on surface water bodies; (b) on the sustainability of aquifer draw-down; and (c) on the quality of water for irrigation and its alternative uses such as domestic water supply;
- (ii) assessment of agro-chemical concentrations in the soil and water;
- (iii) strengthening and expansion of the system established by BADC for monitoring groundwater resources development;
- (iv) establishing a computer based groundwater data storage, retrieval and processing system;
- (v) rehabilitating village domestic water supply systems affected by Project supported irrigation systems; and
- (vi) development of local expertise in environmental specialties.

Part D: Technical Assistance

- (i) Training: Programs for training of personnel working on various aspects of the Project including private mechanics, pump operators and BADC staff;
- (ii) Information Dissemination: An intensive and continuous information campaign as well as a public relations campaign to clarify the role of the public and private sectors;
- (iii) Restructuring and Strengthening of BADC: Assistance to BADC to divest itself of commercial activities and develop a capability of supporting the private sector and developing a market research capability; as well as modernizing and strengthening its financial management system, introducing a human resources planning, placement and redeployment program and revitalizing its technical information program to allow for an orderly shift in the role and function of BADC to one emphasizing assistance to the private sector through advice and support, information dissemination, quality enhancement and technical assistance;
- (iv) Support to the Private Sector: Assistance to private sector participants in the Project in procurement of equipment and promotion of joint ventures or other appropriate collaboration arrangements with local and foreign suppliers and manufacturers;

and

(v) Project Implementation Support: Support for implementation of the Project, monitoring Project implementation and evaluation of Project performance, carrying out a feasibility study for follow-up programs to continue minor irrigation development, carrying out hydrological explorations and research into innovative and cost-effective groundwater technologies and alternative approaches to tubewell irrigation rehabilitation.

* * *

The Project is expected to be completed by June 30, 1997.

SCHEDULE 3

Procurement

Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part C hereof, goods shall be procured under contracts awarded 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 Association in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Bangladesh may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Civil and mechanical works may be procured by BADC under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Contracts for the procurement of civil and mechanical works by Dealers and Contractors may be awarded in accordance with the normal procurement procedures of such Dealers and Contractors acceptable to the Association.

3. Goods estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$1,500,000, may be procured by BADC under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

4. Goods estimated to cost the equivalent of \$1,000,000 or less per contract may be procured by Dealers and Contractors pursuant to normal procurement procedures of such Dealers and Contractors acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract referred to in Part A hereof, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of said Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedules 5 and 6 to this

Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which the Association has authorized withdrawals on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

SCHEDULE 4

Implementation Program

Project Implementation

1. The Borrower shall establish a Project Coordination and Monitoring Committee, with membership and terms of reference agreed with the Association, to coordinate and supervise implementation of the Project.

2. (a) The Borrower shall establish an Irrigation Development Support Unit (IDSU) in its Ministry of Agriculture, with adequate powers, staff, facilities and resources, and terms of reference satisfactory to the Association, to be responsible for the overall implementation of the Project.

(b) IDSU shall be headed by a Project Director with qualifications and experience satisfactory to the Association.

3. The Borrower shall establish an Environment Cell within IDSU, with adequate powers, staff, facilities and resources, and terms of reference satisfactory to the Association, to be responsible for the implementation of Part C of the Project.

4. The Borrower shall establish a Project Monitoring and Performance Evaluation Unit (MPEU) in IDSU under the direction of the Project Director, with terms of reference, staff, resources and facilities satisfactory to the Association.

5. The Borrower shall cause BADC to establish at BADC's headquarters a Project Implementation Unit (PIU), and such Project implementation units at BADC's regional headquarters and field offices as may be required for the effective implementation of the Project, all with adequate powers, staff, facilities and resources, and terms of reference satisfactory to the Association.

BADC Institutional Reforms

6. The Borrower shall take all such actions as shall be necessary to cause BADC to emphasize quality enhancement, technical assistance and market information and de-emphasize commercially oriented activities, all satisfactory to the Association.

7. The Borrower shall cause BADC, in a manner satisfactory to the Association, to:

(a) by June 30, 1992, provide such write-offs as shall be necessary to eliminate as assets on BADC's balance sheet all DTWs not deemed suitable for repair;

(b) by June 30, 1993, sell to the private sector all of BADC's DTWs that shall not have been written off pursuant to paragraph 7(a) above of this Schedule;

(c) by December 31, 1993, provide such write-offs as shall be necessary to eliminate as assets on BADC's balance sheet all DTWs reflected in the latter's audited financial statements for fiscal year 1993;

(d) include in the price of irrigation equipment the full cost of taxes, duties, handling charges, distribution costs and appropriate administrative overheads, all calculated in accordance with accounting principles satisfactory to the Association; and

(e) deposit promptly into the Borrower's Consolidated Fund the entire proceeds from the sale of irrigation equipment.

8. The Borrower shall, in line with the change in BADC's business orientation and focus, cause BADC, in a manner satisfactory to the Association, to:

(a) submit to the Association an inventory of BADC's personnel and their skills and an analysis of its future skill requirements, in light of the contemplated

change in BADC's business orientation and focus;

(b) adopt a retirement plan for BADC's staff mechanics, satisfactory to the Association;

(c) by June 30, 1993, abolish the staff positions of mechanics for servicing irrigation schemes, except those required for irrigation demonstration systems;

(d) appoint a chief engineer and four additional chief engineers in the PIU with qualifications and experience satisfactory to the Association;

(e) by March 31, 1994, take all necessary steps to: (i) reorient the operations of BADC in accordance with its revised business orientation and focus; and (ii) redeploy all BADC redundant staff and adjust BADC staff composition and skill mix as shall be required to meet BADC staff requirements under its revised business orientation and focus; and

(f) not undertake directly or indirectly the business of owning and operating pontoon mounted pumps.

SCHEDULE 5

Selection and Eligibility Criteria; Agreements

Part A: Participation Agreements

1. (a) When applying to Bangladesh Bank for financing under the Project in respect of international letters of credit for eligible expenditures incurred or to be incurred by Dealers or Contractors, each Participating Bank shall sign a Participation Agreement with the Bangladesh Bank, acting on behalf of the Borrower, on terms and conditions which shall include the following:

(i) all standard documents required by Bangladesh Bank for opening letters of credit;

(ii) copies of all documents furnished to the Participating Bank by the concerned Dealer or Contractor in accordance with the standard requirements of such Participating Bank, including shipping documents; and

(iii) a copy of the Dealer Agreement signed by the Dealer or Contractor Agreement signed by the Contractor.

(b) The Participating Banks shall be required to pay the Bangladesh Bank the Taka equivalent of foreign exchange at the time the foreign exchange is paid by Bangladesh Bank to the foreign supplier. For purposes of this paragraph, the Taka equivalent of any foreign currency shall be computed on the basis of the Taka price at which the currency in question is sold in Dhaka at the date and time of day of the remittance by the Participating Banks to the foreign supplier of the foreign exchange payments.

(c) When applying to the Bangladesh Bank for financing under the Project in respect of domestic letters of credit for eligible expenditures incurred or to be incurred by Dealers or Contractors, the Participating Banks shall be required to repay the Bangladesh Bank the same amount in Taka as shall have been advanced by the said Banks to a Contractor. Repayment by the Participating Banks shall include interest and be due within 180 days from the date of the advance by the Participating Banks to the Contractor. Interest shall be computed on the basis of: (i) the weighted average cost of deposits in the banking sector; and (ii) the administrative cost of mobilizing such deposits.

(d) All funds received by the Bangladesh Bank (principal, interest and other charges) from the Participating Banks pursuant to paragraphs (b) and (c) of Part A of this Schedule shall be promptly deposited into the Borrower's Consolidated Fund.

(e) Participating Banks shall be disqualified from the use of the proceeds of the Credit if found in non-compliance with their respective Participation Agreement by the MPEU or by the Association.

Part B: Dealer Agreements

1. Each Dealer shall sign a Dealer Agreement with the Participating Bank which shall include the following terms and conditions:

(a) Dealers shall provide evidence to the Participating Bank of the procurement procedures followed by the Dealer;

(b) Dealers shall only sell equipment to Contractors and farmers who undertake to use such equipment for purposes of irrigation and cultivation of land under the Project;

(c) Dealers shall be required to procure equipment and works with due regard for economy and efficiency on the basis of reasonable prices;

(d) Except as the Association may otherwise agree, Dealers shall import equipment with a warranty valid for a minimum of two irrigation seasons and provide such warranty to Contractors or farmers;

(e) Dealers shall keep accurate records of Contractors or farmers to whom equipment shall have been sold;

(f) Dealers shall permit the inspection of the records referred to in paragraph (e) of Part B of this Schedule by the respective Participating Bank, the MPEU and the Association; and

(g) Dealers shall be disqualified from applying for further letters of credit to be financed out of the proceeds of the Credit if found to be in breach of their respective Dealer Agreement by the respective Participating Bank, MPEU or the Association.

Part C: Contractor Agreements

1. Each Contractor shall sign a Contractor Agreement with the Participating Bank which shall include the following terms and conditions:

(a) Except as the Association shall otherwise agree, Contractors shall supply facilities on a turnkey basis;

(b) Except as the Association may otherwise agree, Contractors shall provide farmers with warranties for the proper operation of the irrigation facilities valid for two irrigation seasons;

(c) Contractors shall keep accurate records of the transactions that they shall have entered into with farmers;

(d) Contractors shall permit the inspection of the records referred to in paragraph (c) of Part C of this Schedule by the respective Participating Bank, the MPEU and the Association.

(e) Contractors shall be disqualified from applying for further letters of credit to be financed out of the proceeds of the Credit if found to be in breach of the concerned Contractor Agreement by the respective Participating Bank, the MPEU or the Association.

Part D: General

1. Participation Agreements, Dealer Agreements and Contractor Agreements shall each be subject to the following terms and conditions:

(a) Groundwater development shall not be allowed in coastal areas where there is a risk of saline intrusion.

(b) Rehabilitation of existing DTWs shall proceed only after the wells shall have been sold to farmers or other private investors.

(c) Village water supply wells which can be shown to have become inoperable due to water level decline after installation of Project supported irrigation facilities shall be made operable when they are located at a distance of:

(i) 100 metres (m) or less from a 14 liters (l)/sec DTW; or

(ii) 200 m or less from a 28 l/sec DTW; or

- (iii) 400 m or less from a 56 l/sec DTW.
- (d) (i) Drainage canal improvement schemes shall not be initiated without the prior commitment of concerned farmers or their representatives: (A) to contribute required land and 30% of the labor required for improvement works; and (B) to assume full responsibility for the operation and maintenance of such schemes after completion of construction.
 - (ii) Drainage canal improvement schemes shall be limited to areas where: (A) they shall not be detrimental to existing downstream water users; and (B) shallow tubewells shall not constitute a viable irrigation alternative. Each such scheme shall only be undertaken on the basis of a study establishing its economic and financial viability and its sustainability in relation to the resource base and the environment.
- (e) Pontoon mounted pump schemes shall be initially limited to twenty and their number shall be increased only after the Association is satisfied that the initial schemes have been successful. Feasibility studies shall be undertaken in respect of each such scheme, establishing its economic and financial viability and sustainability in relation to the resource base and the environment. The initial schemes shall be limited to coastal areas, in particular, the districts of Barguna, Patuakhali, Jhalakati, Perojpur, Barisal, Bagerhat and Khulna.

SCHEDULE 6

Special Account A for Parts A (i), A (ii)
and A (iv) of the Project

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 1 and 2 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 and services required for Parts A(i), A (ii) and A (iv) of 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; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,800,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (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.

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 a deposit or deposits 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 in 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.

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.

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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for Parts A (i), A (ii) and A (iv) of the Project, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts A (i), A (ii) and A (iv) of 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 for Parts A (i), A (ii) and A (iv) of the Project 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: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (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.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, 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.

(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.

SCHEDULE 7

Special Account B for Parts A (iii) and B of the Project

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories 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 and services required for Parts A (iii) and B of 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; and

(c) the term "Authorized Allocation" means an amount equivalent to \$700,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (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.

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 a deposit or deposits 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 in 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.

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.

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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for Parts A (iii) and B of the Project, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts A (iii) and B of 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 for Parts A (iii) and B of the Project 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: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (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.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, 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.

(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.

