

CONFORMED COPY

CREDIT NUMBER 2927 BD

Development Credit Agreement

(Second Rural Roads and Markets Improvement and Maintenance Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 8, 1997

CREDIT NUMBER 2927 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 8, 1997, 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 obtain from the Government of The Swiss Confederation (Switzerland) a grant (the Swiss Grant) in an amount equivalent to eighteen million seven hundred fifty thousand Swiss Francs (CHF 18,750,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the Swiss Grant Agreement) to be entered into between the Borrower and Switzerland;

(C) Switzerland and the Association intend to enter into an agreement (the Administration Agreement) making arrangements for the Association to process applications for withdrawal of the proceeds of the financing to be provided by Switzerland under the Swiss Grant Agreement and regulating certain other matters of common interest in connection with such financing; 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 modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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) "District," "Thana" and "Union" mean the administrative divisions within the Borrower's territory;
- (b) "FRB Roads" means feeder/rural roads classified as type "B" by the Borrower;
- (c) "FY" and "Fiscal Year" mean the Borrower's fiscal year commencing July 1 and ending June 30 each year;
- (d) "Growth Center Market" means the markets so designated by the National Planning Commission of the Borrower;
- (e) "LGED" means the Local Government Engineering Department, an agency of the Local Government Division of the Ministry of Local Government, Rural Development and Cooperatives of the Borrower;
- (f) "Market" means a market controlled by the Local Government Division of the Ministry of Local Government, Rural Development and Cooperatives;
- (g) "NGO" means a non-governmental organization operating in the territory of the Borrower;
- (h) "PIO" means the Project Implementation Office established by the Borrower under LGED for the purpose of implementation of the Project;
- (i) "Project Area" means the area located in the Greater Dhaka Area and Northwest Region and within the Districts of Manikganj, Munshiganj, Narayanganj, Gazipur, Narshingdi, Dhaka, Rajshahi, Naogaon, Natore, Nawabganj, Pabna, Sirajganj, Bogra and Joypurhat;
- (j) "RR1 Roads," "RR2 Roads" and "RR3 Roads" mean rural roads classified by the Borrower as Type 1, Type 2 and Type 3 respectively;
- (k) "Rural Roads" means, collectively, FRBs and RR1, RR2 and RR3 Roads;
- (l) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (m) "Swiss Francs" and "CHF" mean the currency of Switzerland; and
- (n) "Union Parishad" means a local government body at the Union level.

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 ninety-one million two hundred thousand Special Drawing Rights (SDR 91,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

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

Section 2.03. The Closing Date shall be March 31, 2002, 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 canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment 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 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 January 1, 2007 and ending July 1, 2036. Each installment to and including the installment payable on July 1, 2016 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 engineering, financial, environmental and administrative 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.

(c) Without limitation to the generality of paragraphs (a) and (b) above, the Borrower shall select, design and implement components of the Project, related to the improvement, construction, maintenance and management of feeder roads, Growth Center Markets, ghats, drainage structures and other facilities, or cause the selection, design and implementation of such components to be done in accordance with criteria, procedures and time frames satisfactory to the Association.

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 and the Swiss Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

Section 3.04. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 1999, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by October 1999, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

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 Account 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, 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 or payment out of the Special 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

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) The Borrower shall have taken any action to disestablish LGED or to suspend its operations;

(b) Subject to paragraph (c) of this Section the right of the Borrower to withdraw the proceeds of any loan or grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; and

(c) Paragraph (b) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (ii) 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 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) the event specified in Section 5.01 (a) of this Agreement shall occur; and

(b) the event specified in Section 5.01 (b) of this Agreement shall occur, subject to the proviso of Section 5.01 (c) of this Agreement.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that all conditions precedent to the effectiveness of the Swiss Grant Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. 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 VII

Representatives of the Borrower; Addresses

Section 7.01. The Secretary or any Additional Secretary, Joint Secretary, Deputy Secretary, Senior Assistant Secretary or Assistant Secretary of the Economic Relations Division of the Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. 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
672796 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:

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

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/ K.M. Shehabuddin

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Mieko Nishimizu

Acting Regional Vice President
South 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 and the Swiss Grant, the allocation of the amounts of the Credit and the Swiss Grant 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	Amount of Swiss Grant Allocated (Expressed in CHF Equivalent)	% of Expenditures to be Financed
(1) Civil works				
(a) Periodic maintenance of roads and structures	4,120,000	80% through June 30, 1999 30% thereafter	--	--
(b) Other	71,740,000	80%	--	--
(2) Pilot program to improve non-motorized transportation	110,000	14%	1,137,500	86%
(3) Equipment and goods	3,430,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 80% of local expenditures for other items procured locally	--	--
(4) Technical Assistance				
(a) Studies (including follow-up project preparation)	2,010,000	100%	--	--
(b) Incremental staff and operating costs	400,000	14%	3,437,500	60%
(c) Design, supervision, monitoring and audit services	1,160,000	14%	12,925,000	86%
(d) Training	--	--	1,250,000	100%

and study tours

(5) Unallocated	8,230,000	--
TOTAL	91,200,000	18,750,000

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;

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

(c) the term "incremental staff salaries and operating costs" means the cost of additional staff employed exclusively by LGED for purposes of the Project, and the cost of operation and maintenance of offices, vehicles and equipment procured under the Project.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not to exceed SDR 2,400,000 may be made in respect of Categories 1 (b), 4 (a) and 4 (c) on account of payments made for expenditures before that date but after January 1, 1996.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for (a) goods and works under contracts costing less than \$200,000 equivalent, and (b) services under contracts costing less than \$50,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are[MP4]: (i) to improve the quality, and operational and cost efficiency, of the rural transportation and marketing systems; (ii) to create employment and income-generating opportunities for the rural poor, particularly for disadvantaged women; (iii) to promote the participation of local communities and NGOs in project activities; and (iv) to increase institutional capacity for efficient rural infrastructure management and maintenance.

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:

Section I. Project Area

The following parts of the Project shall be carried out in the Project Area:

Part A: Improvement and Upgrading of Selected FRB Roads

1. Improvement and upgrading of about 575 km of selected FRB roads, bridges and culverts on other FRB roads, including tree planting alongside the roads and road safety measures.

2. Construction of a new LGED facility (office/laboratory/workshop) in the Dhaka District and improvement of existing facilities in other Districts.

Part B: Road Maintenance

Development and implementation of a routine and periodic maintenance system for all FRB roads, major RR1 Roads, and structures on rural roads.

Part C: Improvement of Rural Markets

Improvement of infrastructure and common facilities in about 136 Growth Center Markets and 14 local markets.

Part D: Rehabilitation and Construction of River Jetties (Ghats)

Improvement of landing and unloading facilities through rehabilitation or construction of about 41 river jetties and facilities for country boats.

Section II. Nationwide

The following parts of the Project shall be carried out nationwide in the Borrower's territory:

Part E: Construction of Drainage Structures on Rural Roads

Improvement of existing RR1, RR2 and RR3 Roads, with emphasis on local community participation, through construction of about 6,000 culverts and small bridges (approximately, 31,600 linear meters) on existing rural roads to make them passable throughout the year, and correction of drainage problems created by existing rural roads.

Part F: Improvement of Non-Motorized Transportation

Improvement of non-motorized transportation, through a pilot program and with emphasis on NGO participation and dissemination of information which focuses on improving safety and design of non-motorized vehicles, such as rickshaw-vans, passenger rickshaws and bullock carts.

Part G: Enhancement of Road Construction and Maintenance Quality and Efficiency

Enhancement of quality and efficiency of road construction and maintenance activities through provision of equipment to LGED for road construction, maintenance, offices, laboratories and training.

Part H: Institutional and Human Resource Development

Increasing and strengthening the institutional, managerial and technical capacities of LGED, local government agencies and the local construction industry through institutional and human resource development, including fiscal and technical audits.

Part I: Implementation Support

Provision of technical assistance and other support to LGED for the design, supervision, monitoring and evaluation of the Project, including follow-up rural infrastructure project preparation.

* * *

The Project is expected to be completed by September 30, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

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

Part B: International Competitive Bidding

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

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

(a) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost

\$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

(b) Prequalification

Bidders for civil works shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(c) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent and, except as provided in paragraph 3 of this Part C, works estimated to cost less than \$1,500,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Community Participation

Ancillary earthwork, tree-planting, small culvert installation work and other ancillary rural infrastructure work required for Parts A through E of the Project estimated to cost less than \$10,000,000 equivalent per contract, up to an aggregate amount not to exceed \$10,000,000 equivalent, may be carried out through negotiated contracts, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to each contract for goods and works estimated to cost more than the equivalent of \$200,000 the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of

the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts for the employment of consulting firms and individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms or individuals raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. The Borrower shall review with the Association by September 30, 1997, road classification revisions made by LGED as a consequence of the increase in Growth Center Markets from 1,400 markets to 2,100 markets and, thereafter, take into account the Association's recommendations and views in finalizing the revisions.

2. The Borrower shall complete or cause to be completed by December 31, 1997, a study on Union Parishad's financial resource mobilization and, in consultation with the Association, prepare or cause to be prepared a plan of action based on the agreed recommendations under said study and implement or cause to be implemented such plan of action by December 31, 1998.

3. The Borrower shall, for purposes of Part B of the Project, provide to the Association for its approval by June 30 each year during Project implementation, an annual Project Area maintenance program for the following Fiscal Year.

4. The Borrower shall:

(a) for purposes of routine and periodic maintenance of all maintainable Rural Roads, culverts and bridges in the Borrower's territory, provide an annual budget allocation of at least \$21 million equivalent for FY 1997/1998 and, thereafter, increase the budget allocation annually by \$2.5 million equivalent through FY 2001/2002; and

(b) in the event that external funding for the Borrower's Road Maintenance Program (RMP) is discontinued or reduced below the FY 1996/1997 funding level for whatever reason, provide additional annual budget allocation or obtain funds from other sources for RMP or any similar program, in an amount at least equivalent to the FY 1996/1997 external funding.

5. The Borrower shall cause LGED to appoint by March 31, 1997, a qualified maintenance engineer in every District and Thana within the Borrower's territory.

6. The Borrower shall:

(a) for purposes of Part G of the Project: (i) rent construction equipment to contractors; (ii) ensure that charges for renting such equipment are sufficient to cover the maintenance and replacement costs of such equipment; and (iii) make available to LGED annually, through budget allocations into a separate identifiable item in LGED's budget, for maintenance and replacement costs of such equipment, funds equivalent to the estimated rent collections for the following FY; and

(b) furnish to the Association annually accounts relating to said rental charges, collections and allocations under the foregoing provision of subparagraph (a) above.

7. The Borrower shall, for purposes of Part H of the Project:

(a) cause LGED to fill by March 31, 1997, seven high level staff positions in LGED (second Additional Chief Engineer, Superintending Engineer, Assistant Engineer (two positions), Transport Economist, Monitoring & Evaluation Specialist and Sociologist) and, beginning in FY 2000/2001, provide funds for these positions from its budget;

(b) implement the recommendations made in the study dated March 1995, carried out under the Borrower's Management Capability Strengthening Project (MANCAPS), on: (i) improved financial management and internal auditing; and (ii) reduction in control span through delegation of the responsibilities of the Chief Engineer, LGED, by creating about six regional offices by March 31, 1997, each office to be headed by a

Superintending Engineer; and

(c) establish, under the coordination of the Ministry of Local Government, Rural Development and Cooperatives of the Borrower, a Working Committee, consisting of representatives from the private and public sectors, by March 31, 1997, to promote private sector participation in the infrastructure sector, and ensure that the Working Committee shall meet at least semiannually and the Association shall be furnished the results of such meetings.

8. Without limitation to Section 9.08 of the General Conditions, the Borrower shall acquire the land, required for the carrying out of the Project, in accordance with a land acquisition action plan dated November 1995 agreed with the Association.

9. The Borrower shall carry out all necessary measures to mitigate the possible negative environmental impact of road, market and ghat improvements under the Project in accordance with a sectoral environmental action plan dated October 1995 agreed with the Association.

10. The Borrower shall, beginning July 1, 1997, conduct or cause to be conducted every six months, technical audits by consultants acceptable to the Association, to assess, on a sample basis, the amount and quality of civil works carried out under the Project in the preceding six-month or longer period and submit such technical audit report to the Association within three months after each audit.

11. The Borrower shall establish and thereafter maintain the PIO until the completion of the Project.

12. The Borrower shall: (a) not increase its share of revenues beyond 25% of lease revenues earned from the Markets; and (b) not decrease the 50% allocation to Union Parishads of revenues earned from land transfer tax.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) and (4) (a) through (c) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

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

(c) the term "Authorized Allocation" means an amount equivalent to \$10,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$6,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 15,000,000.

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 repayment 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;

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

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

- (d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, 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 the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

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

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, 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.

