

**CONFORMED COPY**

---

---

**CREDIT NUMBER 4761 -BD**

# **Financing Agreement**

**(Additional Financing for Municipal Services Project)**

**between**

**PEOPLE'S REPUBLIC OF BANGLADESH**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 23, 2010**

---

---

## **FINANCING AGREEMENT**

AGREEMENT dated August 23, 2010, entered into between PEOPLE'S REPUBLIC OF BANGLADESH ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing additional financing for activities related to the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

### **ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### **ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to twenty seven million eight hundred thousand Special Drawing Rights (SDR 27,800,000) (variously, "Credit" and "Financing") to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are February 1 and August 1 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

### **ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall: (i) cause MDF to carry out Parts A and B.6(b) of the Project; and (ii) cause LGED to carry out Part B (except for Part B. 6(b) of the Project, all in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

### **ARTICLE IV — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following, namely that the Charter has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of MDF to perform any of its obligations under the Project.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs.

### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

### **ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is the Secretary or the Additional Secretary, or any Joint Secretary, Joint Chief, Deputy Secretary, Deputy Chief, Senior Assistant Secretary, Senior Assistant Chief, Assistant Secretary, or Assistant Chief of the Economic Relations Division of the Ministry of Finance.
- 6.02. The Recipient's Address is:

Economic Relations Division  
Ministry of Finance

Government of the People's Republic of Bangladesh  
Sher-E-Bangla Nagar  
Dhaka, Bangladesh

Facsimile:

88028813088

6.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS

248423 (MCI)

1-202-477-6391

Washington, D.C.

AGREED at Dhaka, People's Republic of Bangladesh as of the day and year first above written.

PEOPLE'S REPUBLIC OF BANGLADESH

By: /s/ M. Musharraf Hosain Bhuiyan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ellen Goldstein

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to improve urban environment, infrastructure and services, and, to that end, to: (a) strengthen the institutional capacity of selected municipalities and city corporations; (b) improve resource allocation and fiscal discipline; and (c) support governmental efforts to reduce urban poverty and improve the environmental conditions of urban communities.

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

#### **Part A: Infrastructure Development**

Financing through loans and/or grants to Participating Municipalities of specific development projects within the municipal infrastructure and services sector for the following:

1. Rehabilitation of existing water supply systems in Participating Municipalities, including urgent works relating to hydrants, valve chambers and overhead tanks.
2. Carrying out of sanitary works, including construction of public toilets in Participating Municipalities.
3. Upgrading and rehabilitation of urban roads and urban drains.
4. Construction of, and/or rehabilitation of, bus/truck terminals in Participating Municipalities and in the city corporations of Khulna and Rajshahi.
5. Upgrading and/or rehabilitation of municipal markets in Participating Municipalities.
6. Carrying out of slum improvement works in the city corporation of Khulna and in Participating Municipalities, including the provision of improved water supply and on-site sanitary facilities, footpaths and street lighting.
7. Provision of improved primary solid waste collection facilities in Participating Municipalities.
8. Construction and/or improvement of urban infrastructure to be identified during Project implementation in Participating Municipalities.

Part B: Institution Building and Technical Assistance

1. Establishment of a Municipal Support Unit (MSU) within LGED, consisting of  
A central support unit and six regional units in each of the Divisions of Bangladesh.
2. Establishment of a municipal database and related applications systems.
3. Preparation of Environmental Management Action Plans (EMAPs) for sanitation and solid waste management in the city corporations of Khulna and Rajshahi.
4. Carrying out of a micro-credit study.
5. Provision of training to MSU, LGED and municipality staff.
6. Provision of technical assistance: (a) to the Participating Municipalities to assist them in the preparation of Investment Projects, the implementation of FOAPs and the improvement of their institutional and financial performance; and (b) to MDF to assist it in appraising and supervising Investment Projects.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Overall Project Implementation and Coordination

The provisions of Schedules 3 (except for paragraphs 4(c) and 5(b)(i)), 5 and 6 to the Original Financing Agreement are incorporated herein by reference and apply to the Project, *mutatis mutandis*.

##### B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines, and shall further ensure that the Participating Municipalities carry out Investment Projects in accordance with the provisions of the Anti-Corruption Guidelines.

##### C. Safeguards

The Recipient shall ensure that the Project is carried out in accordance with the Environmental and Social Framework.

#### Section II. Project Monitoring, Reporting and Evaluation

##### A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.

##### B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than forty five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

**Section III. Procurement**

**A. General**

1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

**B. Particular Methods of Procurement of Goods and Works**

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works, shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Works.** Within the overall context of the Procurement Guidelines, local procurement of goods and works will follow the Recipient's Procurement Laws. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b>Procurement Method</b>	
(a)	National Competitive Bidding
(b)	Shopping
(c)	Direct Contracting



For the purpose of National Competitive Bidding, the following shall apply: (a) post bidding negotiations shall not be allowed with the lowest evaluated or any other bidder; (b) bids should be submitted and opened in public in one location immediately after the deadline for submission; (c) rebidding shall not be carried out, except with the Association's prior agreement; (d) lottery in award of contracts shall not be allowed; (e) bidders' qualification / experience requirement shall be mandatory; (f) bids shall not be invited on the basis of percentage above or below the estimated cost and the contract award shall be based on the lowest estimated bid price of compliant bid from eligible and qualified bidder; and (g) single stage two envelope procurement system shall not be allowed.

**C. Particular Methods of Procurement of Consultants' Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.
  
2. **Other Methods of Procurement of Consultants' Services.** Within the overall context of the Consultant Guidelines, local procurement of services of firms (for which the shortlist may be comprised entirely of national consultants) and services of individual consultants will follow the Recipient's Procurement Laws. The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b>Procurement Method</b>
(a) Quality-based Selection
(b) Fixed Budget Selection
(c) Consultants Qualification
(d) Single Source Selection
(e) Individual Consultants
(f) Least Cost Selection

**D. Review by the Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the Bank's prior review. All other contracts shall be subject to Post Review by the Association.

**E. Other Undertakings**

1. The Recipient shall: (i) implement the Procurement Risk Mitigation Framework (PRMF); (ii) submit to the Association quarterly report on procurement performance indicators; (iii) retain the services of a full time procurement officer under MDF with sound knowledge in national and international procurement; and (iv) include a qualified procurement specialist from MDF's consultant team as a member in each bid evaluation committee.
2. The Recipient shall, not later than December 31, 2010, cause: (i) each Participating Municipality to engage a procurement focal person with appropriate training on national procurement; and (ii) the MDF to retain the services of a consultant team, including at least one qualified procurement specialist who shall participate as a member in each bid evaluation committee.

**Section IV. Withdrawal of the Proceeds of the Financing**

**A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing ("Category"), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Financing Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Civil works under Part A of the Project for MDF	23,820,000	90%
(2) Goods under Part B of the Project for LGED	310,000	100%
(3) Consultant services and training under Parts A and B of the Project		100%
(a) For LGED	1,920,000	
(b) For MDF	1,000,000	
(4) Incremental Operating Costs under Part B of the Project		100%
(a) For LGED	400,000	
(b) For MDF	100,000	
(5) Unallocated	250,000	
<b>TOTAL AMOUNT</b>	<b>27,800,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2012.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each February 1 and August 1:	
commencing August 1, 2020 to and including February 1, 2030	1%
commencing August 1, 2030 to and including February 1, 2050	2%

\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

## APPENDIX

### Section I. Definitions

All definitions contained in the Original Financing Agreement in Article I, Section 1.02 are incorporated by reference in this Agreement, and shall apply *mutatis mutandis* to this Agreement.

### Section II. Other Definitions

1. "Anti-Corruption Guidelines" means the "Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants", dated October 15, 2006 with the modifications set forth in Section IV of this Appendix.
2. "Category" means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. "Charter" means the Charter of MDF (as defined hereinafter).
4. "Consultant Guidelines" means the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in May 2004 and revised in October 2006 and May 2010.
5. "Environmental and Social Framework" means the framework instrument, including a social impact management framework dated August 2007 and an environmental impact management framework, dated April 2010, adopted by the Recipient, and referred to in Section I.C of Schedule 2 to this Agreement, which sets forth principles and procedures, and mitigation, enhancement, monitoring, and institutional measures, to avoid or mitigate potential adverse environmental and social impacts resulting from the Project, or reduce them to acceptable levels, or enhance positive impacts, as the same may be modified from time to time with the prior written agreement of the Association, and such term includes any schedules or annexes to such framework.
6. "FOAP" means, in respect of a Participating Municipality, a financial and operational action plan which identifies the capacity deficits of such Municipality and the corresponding measures to address those deficits as formulated based on a municipal assessment of such Municipality.
7. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005, (as amended

through October 15, 2006), with the modifications set forth in Section III of this Appendix.

8. "Incremental Operating Costs" means the reasonable operating expenditures directly related to the Project incurred by LGED and MDF for implementation and monitoring of the Project, including, but not limited to, salaries and allowances of contractual and deputed staff appointed for implementing the Project, and other administrative costs of transportation, communications, and office supplies.
9. "Investment Project" means a specific development project under Part A of the Project to be carried out by a Participating Municipality (as defined hereinafter) utilizing the proceeds of a Subloan (as defined hereinafter).
10. "LGED" means the Recipient's Local Government Engineering Department; and any successor thereto.
11. "MDF" means the Municipal Development Fund of the Recipient, established as a state-owned entity under the Recipient's Ministry of Finance, and operating under the Recipient's Companies Act 1994, as amended.
12. "MSU" means the Municipal Support Unit established under Part B.1 of the Project.
13. "Original Financing Agreement" means the development credit agreement for the Municipal Services Project between the Recipient and the Association, dated April 26, 1999, as amended to the date of this Agreement (Credit No. 3177-BD).
14. "Original Project" means the Project described in Schedule 2 to the Original Financing Agreement.
15. "Participating Municipality" means a municipality or city corporation to which the Recipient proposes to make or has made a Subloan (as defined hereinafter).
16. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004, and revised in October, 2006 and May 2010.
17. "Procurement Plan" means the Recipient's procurement plan for the Project, dated May 16, 2010, referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
18. "Procurement Risk Mitigation Framework" means the framework, dated May 12, 2010, prepared by the Recipient, setting out measures and actions to mitigate

procurement related risks in the carrying out of the Project; as the same may be modified from time to time with the prior written agreement of the Association.

19. "Procurement Laws" mean, collectively, the Recipient's Public Procurement Act 2006, the Recipient's Public Procurement Rules 2008 (as amended in August 2009), and the Recipient's Public Procurement Act (1<sup>st</sup> Amendment) 2009.
20. "Subloan" means a loan or other financing, including a grant, or a combination of a loan and a grant, made or proposed to be made by the Recipient to a Participating Municipality for an Investment Project out of the proceeds of the Financing.

### **Section III. Modifications to the General Conditions**

The modifications to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. Paragraph (l) of Section 6.02 is modified to read as follows:

“Section 6.02. *Suspension by the Association*

... (l) *Ineligibility*. The Association or the Bank has declared the Project Implementing Entity ineligible to receive proceeds of any financing made by the Association or the Bank or otherwise to participate in the preparation or implementation of any project financed in whole or in part by the Association or the Bank, as a result of: (i) a determination by the Association or the Bank that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of any financing made by the Association or the Bank; and/or (ii) a declaration by another financier that the Project Implementing Entity is ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Project Implementing Entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

### **Section IV. Modifications to the Anti-Corruption Guidelines**

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all

other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and (iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”



“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”