

CONFORMED COPY

CREDIT NUMBER 2253 BD

(Shallow Tubewell and Low-Lift Pump Irrigation Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 17, 1991

CREDIT NUMBER 2253 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 17, 1991, between PEOPLE'S REPUBLIC OF BANGLADESH (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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 have the respective meanings therein set forth and the following additional terms have the following meanings:

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

(b) "MEU" means the Monitoring and Evaluation Unit in the Borrower's Ministry of Agriculture;

(c) "Participating Bank" means any bank established or operating under the Borrower's Banking Companies Ordinance, which has executed a Participation Instrument pursuant to Section 3.02 of this Agreement;

(d) "Participation Instrument" means the instrument to be executed between Bangladesh Bank and a Participating Bank pursuant to Section 3.02 of this Agreement, as said instrument may be amended from time to time;

(e) "Dealer" means any private person or private entity handling the importation of small engines, for subsequent assembly into shallow tubewells and low lift pumps, and power tillers for sale to farmers;

(f) "Dealer Agreement" means the agreement to be entered into between a Participating Bank and a Dealer pursuant to Schedule 4 to this Agreement;

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

(h) "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 this Agreement, an amount in various currencies equivalent to fifty-two million two hundred thousand Special Drawing Rights (SDR 52,200,000).

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 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 shall, 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 December 31, 1994, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

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

Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on 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. 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 Part A of the Project through Bangladesh Bank and Part B of the Project through MEU with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

Section 3.02. The Borrower shall cause Bangladesh Bank to execute a Participation Instrument with each Participating Bank, and cause each Participating Bank to enter into a Dealer Agreement with each Dealer, on terms and conditions satisfactory to the Association, including those set forth in Schedule 4 to this Agreement.

Section 3.03. In carrying out Part B of the Project, the Borrower shall monitor: (i) compliance with Participation Instruments and Dealer Agreements; (ii) price at which equipment under the Project is sold to farmers; and (iii) use of equipment sold to farmers under Part A of the Project to ensure that it is used exclusively for the purposes of the Project.

Section 3.04. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of

the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.05. Without prejudice to any other obligation of the Borrower under this Agreement, the Borrower shall, by December 31, 1992, review with the Association the implementation of the Project and shall, promptly thereafter, take all actions required as a result of the review.

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 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 cause Bangladesh Agricultural Development Corporation:

- (a) to sell or otherwise dispose of, by October 31, 1991, its entire stock of shallow tubewells and low-lift pumps, including spare parts, by direct sale to farmers or by auction to Dealers; and
- (b) thereafter, to refrain from the further purchase of shallow tubewells and low-lift pumps.

Section 5.02. The Borrower:

(a) shall, by October 31, 1991, take all necessary steps to abolish subsidies on triple superphosphate fertilizers and muriate of potassium fertilizers; and

(b) shall not thereafter directly or indirectly subsidize prices of fertilizers.

Section 5.03. The Borrower shall:

(a) take necessary steps to ensure that customs duty and tariff on (i) imported engines of up to 20 horse power for use in minor irrigation equipment; and (ii) power tillers, shall not exceed the rate of 5 per cent of the free on board (FOB) value of such engines and tillers;

(b) abolish and thereafter not institute standardization requirements on imported minor irrigation equipment;

(c) abolish and thereafter not institute restrictions on siting of tubewells in non-surface irrigation areas;

(d) remove all restrictions on the import of fertilizers (triple superphosphate; muriate of potassium; and urea) into the Borrower's territory;

(e) ensure that all contracts for the commercial import of foodgrain by the Borrower are awarded on the basis of international tender offers open to all interested suppliers; and

(f) abolish and thereafter not institute any restrictions on credit for storage of foodgrain and take steps as necessary to facilitate foodgrain storage by the private sector.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely that a change shall have been made in any Participation Instrument or Dealer Agreement without the consent of the Association.

Section 6.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely that the event specified in Section 6.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower.

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) a model Participation Instrument and a model Dealer Agreement, satisfactory to the Association, have been issued by Bangladesh Bank to Participating Banks along with a description of the procedures under which proceeds of the Credit will be made available for financing expenditures under Part A of the Project; and

(b) Project Proforma for the carrying out of the Project have been approved by the Borrower.

Section 7.02. 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 VIII

Representatives of the Borrower; Addresses

Section 8.01. The Secretary or the Additional Secretary or any Joint Secretary, Deputy Secretary or Assistant Secretary of the Economic Relations Division of the

Ministry of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 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
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(1)	Equipment	50,070,000	100% of foreign expenditures
(2)	Consultants services for Part B of the Project	80,000	100%
(3)	Unallocated	2,050,000	
	TOTAL	52,200,000	

2. For the purposes of this Schedule, 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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of (a) payments made for expenditures prior to the date of this Agreement; and (b) in an amount exceeding the equivalent of SDR 18,000 from Category 1 in respect of expenditures incurred for Part B of the Project.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in increasing agricultural production, income and employment by increasing the area under irrigation and improving the cultivation of land.

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:

Provision of small engines, of up to 20 horse-power, for use in the assembly and installation of shallow tubewells and low-lift pumps for use by farmers in the irrigation of land; and provision to farmers of power tillers for use in the cultivation of land.

Part B:

Carrying out monitoring and evaluation activities relating to Part A of the Project, including establishment and operation of a Project monitoring and evaluation unit in the Borrower's Ministry of Agriculture.

* * *

The Project is expected to be completed by June 30, 1994.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods

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 Bank 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. Contracts for the procurement of goods for Part A of the Project, estimated to cost the equivalent of less than \$1,000,000 each may be awarded in accordance with the normal procurement procedures of the Dealers, acceptable to the Association.

2. Goods for Part B of the Project may be procured under contracts awarded on the basis of comparison of price quotations solicited from a list of at least three suppliers eligible under the Guidelines, in accordance with procedures 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 for goods estimated to cost the equivalent of \$1,000,000 or more, 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 the 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 the 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 the 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 Schedule 5 to this Agreement.

2. 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 statement of expenditures.

3. The figure of 10% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out Part B of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis 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.

SCHEDULE 4

Terms and Conditions of Participation and
Dealer Agreements

Part A: Requirements for Participating Banks

Each Participating Bank shall execute a Participation Instrument with Bangladesh Bank with terms and conditions satisfactory to the Association including the following:

1. Each Participating Bank shall be required to enter into Dealer Agreements with eligible Dealers prior to providing assistance to such Dealers under the Project;

2. When applying for foreign exchange under the Project, each Participating Bank shall provide at least the following documents to Bangladesh Bank:

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

(b) copies of all documents furnished to the Participating Bank by the concerned Dealer in accordance with the standard requirements of such Participating

Bank, including shipping documents; and

(c) a copy of the Dealer Agreement signed by Dealer relating to the eligibility requirements set forth in paragraph B of this Schedule.

3. Each Participating Bank shall be required to pay Bangladesh Bank the Taka equivalent of the foreign exchange at the time the foreign exchange is paid to a foreign supplier (or to its account) under the Project.

4. A Participating Bank shall be disqualified from the use of Project funds if found by the Borrower or the Association to (a) be in non-compliance with the concerned Participation Instrument; or (b) have failed to enforce any Dealer Agreement to which such Participating Bank is a party.

Part B: Requirements for Dealers

Each Dealer shall sign a Dealer Agreement with the concerned Participating Bank with terms and conditions satisfactory to the Association including the following:

1. Dealers shall provide evidence to the Participating Bank of the procurement procedures followed by the Dealer.
2. Dealers shall limit the sale of the small engines and power tillers to farmers who shall use them exclusively for purposes of the Project.
3. Dealers shall import small engines and power tillers with due regard for economy, efficiency and reasonable prices.
4. Dealers shall import only small engines and power tillers with minimum 6-month warranties, and shall provide such warranties to farmers, including any applicable after-sale service.
5. Dealers shall keep a list of the farmers to whom engines and power tillers are sold.
6. Dealers shall permit the inspection of the documents referred to in paragraph 5 above by the Participating Bank, MEU and the Association.
7. Dealers shall be disqualified from applying for further letters of credit under the Project if found to be in breach of the Dealer Agreement by the Participating Bank, the Borrower or the Association.

SCHEDULE 5

Special Account

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 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 \$7,000,000 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, 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; (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.

