

CONFORMED COPY

CREDIT NUMBER 3457 BD

Development Credit Agreement

(Second Poverty Alleviation Microfinance Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 30, 2001

CREDIT NUMBER 3457 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 30, 2001, 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 Project will be carried out by Palli Karma Sahayak Foundation (PKSF as hereinafter defined) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the Credit provided for in Article II of this Agreement (the Credit) available to PKSF, as set forth in this Agreement; 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 and in the agreement of even date herewith between the Association and PKSF (the Project 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 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries."; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country 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) "Bangladesh Bank" means 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) "Beneficiary" means a person having a land holding or annual income below a threshold established by PKSF under its Statement of Policy (as hereinafter defined) or a Microentrepreneur (as hereinafter defined) to whom a PO (as hereinafter defined) has made or proposes to make a Microcredit (as hereinafter defined);

(c) "Big Partner Organizations" (hereinafter "BPOs"), means large POs with more than 100,000 microcredit borrowers, and which meet the criteria set forth in Part B.1 (a) of Schedule 2 to the Project Agreement;

(d) "BPO's Governing Body" means the group of members appointed in accordance with the BPO's Memorandum and Articles of Association, responsible for the overall policies and operations of the BPO;

(e) "Eligible Activity" means income and employment generating activities, as specified by PKSF, to be carried out by a Beneficiary utilizing the proceeds of a Microcredit;

(f) "Eligible Categories" means categories 1, 2 and 3, as set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(g) "Eligible Expenditures" means the expenditures for Microcredits, goods and services referred to in Section 2.02 of this Agreement;

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

(i) "Guidelines for the Management of Microenterprise Environmental Health and Safety Risks" means the Guidelines for the management of environmental, health and safety risks of microenterprises, prepared by PKSf and approved by the Association, as amended from time to time by PKSf in consultation with the Association;

(j) "Hard Core Poor" means a household whose diet provides less than 1800 calories per person per day and/or members classified as vulnerable persons in society;

(k) "Medium Partner Organizations" (hereinafter "MPOs") means POs which meet the criteria set forth in Part B.1 (b) of Schedule 2 to the Project Agreement;

(l) "Memorandum and Articles of Association" means the Memorandum and Articles of Association of PKSf as amended to the date of this Agreement;

(m) "Microcredit" means a loan made or proposed to be made by a PO to a Beneficiary for an Eligible Activity;

(n) "Microentrepreneur" means a Beneficiary receiving a Microcredit under Part D of the Project;

(o) "Microenterprise" means an economically viable full-time employment generating entity as specified in PKSf's Statement of Policy;

(p) "NGO" means Non-Governmental Organization;

(q) "NGO-MFI" means an NGO or a microfinance institution established in accordance with the laws of the Borrower for, inter alia, carrying out Microcredit programs;

(r) "Operational Manual" of PKSf means the manual dated November 8, 2000 setting out detailed lending procedures governing the implementation of the Project, as amended from time to time in consultation with the Association;

(s) "PKSf" means the Palli Karma Sahayak Foundation, an apex financing institution registered as a private non-profit organization under the Borrower's Companies Act, 1913, as amended;

(t) "PKSf's Governing Body" means the group of seven members appointed in accordance with PKSf's Memorandum and Articles of Association, responsible for the overall policies and operations of PKSf;

(u) "Project Agreement" means the agreement between the Association and PKSf of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(v) "Project Management Report" means each report prepared in accordance with Section 4.02 of the Project Agreement;

(w) "PO" means a partner organization of PKSf to which PKSf has made or proposes to make a sub-loan (as hereinafter defined);

(x) "Small Partner Organizations" (hereinafter "SPOs") means POs with

a minimum membership of 400, and which meet the criteria set forth in Part B.1(c) of Schedule 2 to the Project Agreement;

(y) "Special Account" means the Account referred to in Part B of Schedule 1 to this Agreement;

(z) "Statement of Policy" means the statement of lending policy dated May 28, 1996 adopted and approved by the Governing Body of PKSF as amended prior to the date of this Agreement and reissued on November 14, 2000;

(aa) "Sub-loan" means a loan made or proposed to be made by PKSF out of the proceeds of the Credit to a PO for financing a Microcredit;

(bb) "Sub-loan Agreement" means an agreement to be entered into between PKSF and a PO providing for a Sub-loan;

(cc) "Subsidiary Loan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Credit to PKSF for financing a Sub-loan pursuant to the provisions of Schedule 2 of the Project Agreement; and "Subsidiary Grant" means the grant made available to PKSF by the Borrower for purposes of Part E of the Project;

(dd) "Subsidiary Loan and Grant Agreement" means the agreement to be entered into between the Borrower and PKSF, pursuant to Section 3.01(b) of this Agreement, satisfactory to the Association, for purposes of carrying out the Project; and

(ee) "Taka" and "Tk" mean the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred eighteen million, three hundred thousand Special Drawing Rights (SDR 118,300,000).

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

(i) amounts paid (or, if the Association shall so agree to be paid) through PKSF to a PO on account of withdrawals made by a Beneficiary under a Microcredit to meet the reasonable cost of goods and services required for an Eligible Activity in respect of which the withdrawal from the Credit Account is requested; and (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be June 30, 2005, 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 and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section

2.06 of this Agreement.

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

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

Section 2.06. Commitment charges and service charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing July 15, 2011 and ending January 15, 2041. Each installment to and including the installment payable on January 15, 2021 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) 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.

Section 2.09. The Managing Director of PKSF, or such person or persons as he shall appoint in writing, is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall carry out the Project or cause PKSF to carry out the Project in accordance with the provisions of the Project Agreement, with due diligence and efficiency, and in conformity with appropriate administrative, environmental, financial, and microcredit practices, and shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable PKSF to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall: (i) relend part of the proceeds of the Credit to PKSF for purposes of providing Sub-loans to POs under Parts A, B, C and D of the Project; and (ii) provide part of the proceeds of the Credit as a grant to PKSF for purposes of Part E of the Project, all in accordance with the provisions of a Subsidiary Loan and Grant Agreement to be entered into between the Borrower and PKSF, containing the procedures, terms, conditions and implementation arrangements, approved by the Association which shall, except as the Association shall otherwise agree, include (A) that interest shall be payable on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a simple interest rate of 1% per annum, the amortization period shall be 20 years with a grace period of 5 years for each disbursement from the proceeds of the Credit onlent to PKSF as a Subsidiary Loan, prepayment shall be permitted at any time without penalty, and the foreign exchange risk shall be borne by the Borrower; and (B) those set forth in Schedule 2 of the Project Agreement.

(c) The Borrower shall: (i) exercise its rights under the Subsidiary Loan and Grant Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan and Grant Agreement or any provision thereof; and (ii) ensure that, unless the Association shall otherwise agree, Sub-loans and Microcredits will be made in accordance with the procedures and on terms and conditions set forth or referred to in Schedule 2 of the Project Agreement and the Operational Manual.

Section 3.02. 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 1 to the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by PKSF pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices records and separate accounts

reflecting such expenditures;

(ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made; and

(iii) enable the Association's representatives to examine such records.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) this Section and 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 the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the Project Management Reports or 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; and

(iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02(1) of the General Conditions, the following additional events are specified, namely, that:

(a) PKSF shall have failed to perform any of its obligations under the Project Agreement.

(b) PKSF shall have failed to implement the Program outlined in its Statement of Policy in a timely fashion and in a manner satisfactory to the Association.

(c) The Subsidiary Loan and Grant Agreement shall have been amended, suspended, abrogated, repealed or waived without the prior approval of the Association.

(d) The Memorandum and Articles of Association of PKSF shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial conditions of PKSF or its ability to carry out the Project or to perform any of its obligations under the Subsidiary Loan and Grant Agreement.

(e) The Borrower, or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PKSF or for the suspension of its operations.

(f) As a result of events which have occurred after the date of the

Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that PKSF will be able to perform its obligations under the Project Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional events are specified:

(a) the events specified in paragraphs (a) and (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) the events specified in paragraphs (c), (d) and (e) shall occur.

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 the Subsidiary Loan and Grant Agreement has been executed on behalf of the Borrower and PKSF.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association, namely:

(a) that the Project Agreement has been duly authorized or ratified by PKSF, and is legally binding upon PKSF in accordance with its terms; and

(b) that the Subsidiary Loan and Grant Agreement has been duly authorized or ratified by the Borrower and PKSF and is legally binding upon the Borrower and PKSF in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Secretary, the Additional Secretary, Joint Secretary, Joint Chief, Deputy Secretary, Deputy Chief, Senior Assistant Secretary, Senior Assistant Chief, Assistant Secretary, or the Assistant Chief of the Economic Relations Division 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

Telex:

642226 SETU BJ

Facsimile:

(8802) 811-3088

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) 64145 (MCI)	(202) 477-6391

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

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ Masihur Rahman
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Frederick Temple
Country Director, Bangladesh

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Microcredit	102,630,000	90%
(2) Goods	1,100,000	100% of foreign expendi- tures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(3) Consultants' services, Training and Study Tours	2,820,000	100%
(4) Unallocated	11,750,000	
TOTAL	118,300,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; and (b) in respect of a Microcredit, unless the Microcredit has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 2 of the Project Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) Microcredits; (ii) goods under contracts costing less than \$100,000 equivalent; (iii) services under contracts costing less than \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants; and (iv) training and study tours, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in dollars a Special Account in Bangladesh Bank, on terms and conditions satisfactory to the Association.

2. After the Association has received evidence satisfactory to it that a Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the said Special Account shall be made as follows:

(a) withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1 until the Association receives a request from the Borrower to make withdrawals on the basis of Project Management Reports; and

(b) upon receipt by the Association of the request from the Borrower to make withdrawals on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of the Project Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) 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 (A) the records and accounts for the Special Account or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of statements of expenditures or Project Management Reports.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 sub-paragraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

Annex A to SCHEDULE 1

Operation of Special Account When Withdrawals Are Not Made On the Basis of Project Management Reports

1. For the purposes of this Annex:

(a) the term "Authorized Allocation" means an amount equivalent to \$15,000,000, to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$10,000,000, 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 equal or exceed the equivalent of SDR 22,000,000.

2. Withdrawals of the Special Account's Authorized Allocation and subsequent withdrawals to replenish the said Special Account shall be made as follows:

(a) For withdrawals of the Special Account's Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the

aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the said Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the said Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit allocated to said Special Account's Eligible Categories minus the total amount of all outstanding Special Commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of expenditures to be financed out of the proceeds of the Credit allocated to said Categories, shall equal the equivalent of twice the amount of the said Special Account's Authorized Allocation. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to said 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.

Annex B to SCHEDULE 1

Operation of Special Account When Withdrawals Are Made On the Basis of Project Management Reports

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Special Account's Eligible Categories.

2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.

3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the said Special Account, shall not exceed the equivalent of \$30,000,000.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) mainstream microfinance

through continued expansion of rural and urban microcredit and an increase in loan size;

(ii) expand microcredit to Hard Core Poor and design innovative products for the microfinance market; (iii) extend microenterprise loans to microentrepreneurs; (iv) build the institutional capacity of PKSF and its POs; and (v) assist in the creation of an appropriate regulatory framework for MFI-NGOs so as to improve their accountability and integrate them into the financial market.

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: Rural Microcredit

Provision of rural Microcredit financing through PKSF and Big, Medium and Small POs to the eligible Beneficiaries.

Part B: Urban Microcredit

Provision of urban Microcredit financing through PKSF and Big, Medium and Small POs to the eligible Beneficiaries.

Part C: Hard Core Poor

1. Provision of Microcredit financing to the Hard Core Poor through PKSF and Big, Medium and Small POs to the eligible Beneficiaries.

2. Strengthening of the internal capacity of PKSF and POs to address the needs of the Hard Core Poor through:

(a) the establishment of a cell within PKSF with required additional staff members to implement Hard Core Poor Microcredit operations; and

(b) provision of training to POs on, inter alia, the maintenance of accounts, the processing of funding applications for the Hard Core Poor Microcredit program, and the operation of Management Information Systems (MIS).

Part D: Microenterprise Lending

Provision of microcredit financing to microenterprises through PKSF and Big and Medium POs to the eligible Beneficiaries.

Part E: Institutional Development

1. Provision of technical assistance, training, domestic and international study tours, and goods, to strengthen the capacity of PKSF and POs to:

(i) expand microfinance services;

(ii) broaden the range of financial services benefiting the poor; and

(iii) improve the creditworthiness and sustainability of POs.

2. Provision of technical assistance for the purpose of establishing a regulatory framework for the microfinance sector, and monitoring the performance of such sector.

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The Project is expected to be completed by December 31, 2004.



