

CONFORMED COPY

CREDIT NUMBER 3792 BD

Project Agreement

(Central Bank Strengthening Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

BANGLADESH BANK

Dated June 30, 2003

CREDIT NUMBER 3792 BD

PROJECT AGREEMENT

AGREEMENT, dated June 30, 2003, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and BANGLADESH BANK (Bangladesh Bank).

WHEREAS (A) by the Development Credit Agreement of even date herewith between People's Republic of Bangladesh (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty seven million two hundred thousand Special Drawing Rights (SDR 27,200,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Bangladesh Bank agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and Bangladesh Bank, the proceeds of the credit provided for under the Development Credit Agreement will be made available to Bangladesh Bank on the terms and conditions set forth in said Subsidiary Loan Agreement; and

WHEREAS Bangladesh Bank, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) Bangladesh Bank declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and banking practices, and shall

provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association shall otherwise agree, Bangladesh Bank shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. (a) Bangladesh Bank shall carry out 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) in respect of the Project Agreement.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, Bangladesh Bank shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Association and Bangladesh Bank, a plan for the future operation of the Project; and
- (ii) afford the Association a reasonable opportunity to exchange views with Bangladesh Bank on said plan.

Section 2.04. Bangladesh Bank shall duly perform all its obligations under the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, Bangladesh Bank shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) Bangladesh Bank shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) Bangladesh Bank shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by Bangladesh Bank of its obligations under this Agreement and under the Subsidiary Loan Agreement.

ARTICLE III

Management and Operations of Bangladesh Bank

Section 3.01. Bangladesh Bank shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and banking practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

ARTICLE IV

Financial Covenants

Section 4.01. (a) Bangladesh Bank shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and resources and expenditures related to the Project.

- (b) Bangladesh Bank shall:
- (i) have its records, accounts and financial statements referred to in paragraph (a) above, for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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 copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and 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 such records, accounts and financial statements, and the audit thereof, as the Association may from time to time reasonably request.

Section 4.02. (a) Without limitation upon Bangladesh Bank's reporting obligations set out in Section 4.01 above, Bangladesh Bank shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and previously forecast uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than November 15, 2003, and shall cover the period from the incurrence of the first expenditure under the Project through the end of September 30, 2003; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of Bangladesh Bank thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or

(ii) the date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a)(ii) of this Section, the Association shall promptly notify Bangladesh Bank of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

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) or 64145 (MCI)	(202) 477-6391

For Bangladesh Bank:

Motijheel Commercial Area
Dhaka - 1000
People's Republic of Bangladesh

Telex:

632226
632227
BANK BJ

Facsimile:

(880-2) 956-6212

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Bangladesh Bank, or by Bangladesh Bank on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Governor or such other person or persons as the Governor shall designate in writing, and Bangladesh Bank shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Frederick Temple

Country Director
Bangladesh

BANGLADESH BANK

By /s/ Muhammad A. Ali

Authorized Representative

SCHEDULE 1

Procurement

Section I. Procurement of Goods

Part A: General

Goods shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits”, published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Preference for domestically manufactured goods

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

(b) Notification and Advertising

The invitation to bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. National Competitive Bidding

- (a) Goods estimated to cost less than the equivalent of \$200,000 per contract, up to an aggregate amount not to exceed the equivalent of \$1,000,000, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

(b) For the purpose of the method referred to in (a) above, and in order to ensure economy, efficiency, transparency and broad consistency with the provisions of Section I of the Procurement Guidelines:

- (i) standard bidding documents approved by the Association shall be used;
- (ii) invitations to bids shall be advertised in at least one widely circulated national daily newspaper and bidding documents shall be made available to prospective bidders, at least 28 days prior to the deadline for the submission of bids;
- (iii) bids shall not be invited on the basis of percentage premium or discount over the estimated cost;
- (iv) bidding documents shall be made available, by mail or in person, to all who are willing to pay the required fee;
- (v) foreign bidders shall not be precluded from bidding and no preference of any kind shall be given to national bidders;
- (vi) qualification criteria (in case pre-qualifications were not carried out) shall be stated in the bidding documents, and if a registration process is required, a foreign firm determined to be the lowest evaluated bidder shall be given reasonable opportunity of registering, without any let or hindrance;
- (vii) bidders may deliver bids, at their option, either in person or by courier service or by mail;
- (viii) all bidders shall provide bid security as indicated in the bidding documents. A bidder's bid security shall apply only to a specific bid;
- (ix) bids shall be opened in public in one place immediately, but no later than one hour, after the deadline for submission of bids;
- (x) evaluation of bids shall be made in strict adherence to the criteria disclosed in the bidding documents, in a format and specified period agreed with the Association;

- (xi) bid shall not be rejected merely on the basis of a comparison with an official estimate without the prior concurrence of the Association;
- (xii) split award or lottery in award of contracts shall not be carried out. When two or more bidders quote the same lowest price, an investigation shall be made to determine any evidence of collusion, following which: (A) if collusion is determined, the parties involved shall be disqualified and the award shall then be made to the next lowest evaluated and qualified bidder; and (B) if no evidence of collusion can be confirmed, then fresh bids shall be invited after receiving the concurrence of the Association;
- (xiii) contracts shall be awarded to the lowest evaluated bidders within the initial period of bid validity so that extensions are not necessary. Extension of bid validity may be sought only under exceptional circumstances;
- (xiv) extension of bid validity shall not be allowed without the prior concurrence of the Association, (A) for the first request for extension if it is longer than eight weeks, and (B) for all subsequent requests for extensions irrespective of the period;
- (xv) negotiations shall not be allowed with the lowest evaluated or any other bidders;
- (xvi) re-bidding shall not be carried out without the Association's prior concurrence; and
- (xvii) all contractors or suppliers shall provide performance security as indicated in the contract documents. A contractor's or a supplier's performance security shall apply to a specific contract under which it was furnished.

2. National Shopping

Goods estimated to cost less than \$20,000 equivalent per contract, up to an aggregate not to exceed \$200,000 may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1. Any modifications in the procurement plan including any procurement of goods outside the approval plan will require the Association's prior approval.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$200,000 or more, and the first contract awarded on the basis of the National Competitive Bidding, regardless of value, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers", published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Single Source Selection

Services for training, which are estimated to cost less than \$1,500,000 equivalent in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

2. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association. Any modifications in the selection plan including any selection of consultants' services outside the approved selection plan shall require the Association's prior approval.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

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

SCHEDULE 2

Implementation Program

1. The Bangladesh Bank shall establish a Steering Committee comprising of the Governor and the three Deputy Governors and a representative from the Finance Division, which shall meet every month or more frequently to decide on policy and major implementation aspects of the project. The Deputy Governor of Bangladesh Bank shall be the Project Director and shall act as Secretary to the Steering Committee.
2. Bangladesh Bank shall maintain a Central Bank Strengthening Project Cell (CBSPC) to be responsible for overall implementation, coordination and supervision of various activities under the Project. The CBSPC shall be headed by the Project Director referred to in paragraph 1 above, who, assisted by a Modernization Expert, shall coordinate, monitor and supervise the activities of the various Bangladesh Bank teams involved in the carrying out of the activities under the Project.
3. Bangladesh Bank shall:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the performance indicators set forth in Schedule 3 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;
 - (b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) above, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and
 - (c) review with the Association, by December 31, 2005, or such later date as the Association shall request, the report referred to in paragraph (b) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 3

Performance Indicators

Unless otherwise agreed between the Association and Bangladesh Bank, the following performance indicators shall be used to measure the achievement of the Project:

1. Indicators for Part A of the Project

(a) Bangladesh Bank Circulars to ensure the soundness and stability of the banking system, enforced effectively by December 31, 2005.

(b) Bangladesh Bank staff trained to implement effectively AML/CFT provisions in the law, by December 31, 2004.

(c) Systems installed in Bangladesh Bank to capture and share data on AML/CFT, by June 30, 2006.

2. Indicators for Part B of the Project

(a) New Bangladesh Bank Organogram showing three major wings, banking supervision, macro and monetary policy, and foreign exchange and anti-money laundering according to its three core functions, adopted by June 30, 2004.

(b) Functioning of Bangladesh Bank streamlined by reducing its hierarchy from nine to seven layers, by December 31, 2006.

(c) Key staff in computer department receive adequate training by December 31, 2004.

(d) Bangladesh Bank work processes fully automated by December 31, 2006.

(e) About half of all the commercial banks report to Bangladesh Bank on-line by June 30, 2006.

(f) Modern HR policies adopted by Bangladesh Bank, by December 31, 2004.

(g) Bangladesh Bank's skill level enhanced through recruitment of around 100 fresh graduates each year, from year 2004, under new recruitment policy.

(h) Training needs assessment of Bangladesh Bank officials completed and the implementation of the training plan initiated by June 30, 2004.

(i) A modern performance management system in place by December 31, 2004.

3. Indicators for Part C of the Project

(a) Quality research reports on vital issues, such as inflation, interest rates and spreads, prepared and disseminated by Bangladesh Bank, by December 31, 2005.

(b) All private domestic banks comply with Bangladesh Bank's capital adequacy requirements by March 31, 2005.

(c) All private domestic banks comply with Bangladesh Bank's loan classification and provisioning standards by December 31, 2004.

(d) Bank Supervisory Policy Manual upgraded by June 30, 2004.

(e) Bangladesh Bank's full compliance with Basle Committee's Core Principles of Bank Supervision achieved by June 30, 2007.

(f) Supervisory staff training plan adopted and implemented by December 31, 2005.

(g) International central banking accounting and auditing standards adopted by June 30, 2004.

(h) Bangladesh Bank's Financial Statements for the year ended 2003, prepared according to international standards.