

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4129-BD

Development Credit Agreement

(Third Development Support Credit)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 15, 2005

CREDIT NUMBER 4129-BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 15, 2005, between PEOPLE'S REPUBLIC OF BANGLADESH (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated October 24, 2005, describing a program of actions, objectives and policies designed to accelerate poverty reduction through structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Borrower has carried out the measures and taken the actions described in Schedule 2 of this Agreement to the satisfaction of the Association, and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) on the basis, *inter alia*, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by making the Credit, in one single tranche, as hereinafter provided;

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 May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) Section 2.01, paragraph 12, is modified to read:

“‘Project’ means the program, referred to in the Preamble to the Development Credit Agreement, in support of which the Credit is made.”;

(b) Section 4.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency specified in Section 2.02(b) of the Development Credit

Agreement; provided, however, that withdrawals in the currency of the Borrower shall be made in such currency or currencies as the Association shall from time to time reasonably select.”;

(c) Section 5.01 is modified to read:

“The Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in accordance with the provisions of the Development Credit Agreement and of these General Conditions”;

(d) The last sentence of Section 5.03 is deleted;

(e) Section 9.06 (c) is modified to read:

“(c) Not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Credit Agreement, the performance by the Borrower and the Association of their respective obligations under the Development Credit Agreement and the accomplishment of the purposes of the Credit.”; and

(f) Section 9.04 is deleted and Sections 9.05, 9.06 (as modified above), 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.

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) “Anti-corruption Commission” or “ACC” means the anti-corruption commission established by the Borrower under the Independent Anti-Corruption Commission Act, February 2004;

(b) “Deposit Account” means the account referred to in Section 2.02(b) of this Agreement;

(c) “NBR” means the Borrower’s National Board of Revenue;

(d) “NCBs” means the Borrower’s nationalized commercial banks as set out in Bangladesh Banks (Nationalization) Order, 1972 (P.O. No. 26 of 1972) and include,

for purposes of this Agreement, Agrani Bank, Janata Bank, Rupali Bank and Sonali Bank; and

- (e) “SOE” means the Borrower’s state-owned enterprises.

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 thirty eight million one hundred thousand Special Drawing Rights (SDR 138,100,000).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Borrower shall be entitled to withdraw the proceeds of the Credit from the Credit Account in support of the Program.

(b) Except as the Association may otherwise agree: (i) all withdrawals from the Credit Account shall be deposited by the Association into an account in dollars designated by the Borrower and acceptable to the Association; and (ii) the Borrower shall ensure that upon each deposit of an amount of the Credit into said account, an equivalent amount is accounted for in the Borrower’s budget management system, in a manner acceptable to the Association.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association determines at any time that an amount of the Credit was used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, refund an amount equal to the amount of said payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

Section 2.03. The Closing Date shall be June 30, 2006, 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 (60) 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 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 January 15, 2016, and ending July 15, 2045. Each installment to and including the installment payable on July 15, 2025, 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 the Association 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 (6) 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 abovementioned 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.

ARTICLE III

Particular Covenants

Section 3.01. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program and the actions specified in Schedule 2 to this Agreement.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Without limitation upon the provisions of Section 9.01(a) of the General Conditions, the Borrower shall promptly furnish to the Association such information relating to the provisions of Article II of this Agreement as the Association may, from time to time, reasonably request. Upon the Association's request, the Borrower shall:

(a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(b) furnish to the Association as soon as available, but in any case not later than four months after the date of the Association's request for such audit, 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

(c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

ARTICLE IV

Additional Event of Suspension

Section 4.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE V

Termination

Section 5.01. 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 VI

Representatives of the Borrower; Addresses

Section 6.01. The Secretary, or the Additional Secretary, or any Joint Secretary, or Deputy Secretary or Senior Assistant Secretary or Assistant Secretary or Joint Chief, or Deputy Chief or Senior Assistant Chief or Assistant Chief of the Economic Relations Division of the Ministry of Finance of the Borrower is designated as the representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. 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
Sher-e-Bangla Nagar
Dhaka, Bangladesh

Cable address:	Telex:	Facsimile:
BAHIRSAMPAD	642226 SETU BJ	88028113088

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

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.

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ Ismail Zabihullah

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Christine Wallich

Country Director
Bangladesh

SCHEDULE 1

Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Credit shall not be used to finance any of the following expenditures:

1. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Association or the Bank shall have financed or agreed to finance under another credit, loan, or grant;
2. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Borrower:

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
112	-	Alcoholic beverages
121	-	Tobacco, unmanufactured, tobacco refuse
122	-	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	-	Radioactive and associated materials
667	-	Pearls, precious and semiprecious stones, unworked or worked

<u>Group</u>	<u>Subgroup</u>	<u>Description of Items</u>
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971	-	Gold, non-monetary (excluding gold ores and concentrates)

3. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;
4. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party);
5. expenditures on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
6. expenditures under a contract in respect of which the Association determines that corrupt, fraudulent, collusive, or coercive practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

SCHEDULE 2

Actions Referred to in Recital (B) of the Preamble to this Agreement

Financial Sector/NCBs

1. The Borrower has brought Rupali Bank to the point of divestment, under terms and conditions acceptable to the Association.
2. The Borrower has implemented, in a manner satisfactory to the Association, a strategy to improve efficiency of the NCBs, which includes, *inter alia*, restrictions on credit growth and lending to single large borrowers, as well as measures to reduce costs, including staffing reductions and branch closures.

SOE Reform

3. The Borrower has reduced the financial losses of manufacturing SOEs by ten (10 %) percent.
4. The Borrower has initiated the implementation of NBR modernization, including strengthening of the functions of the NBR, especially audit and information technology, and initiated the hiring process for key staff.
5. The Borrower: (i) has reduced its arrears to the major power utilities in the country to under five (5) months of receivables; (ii) has made arrangements in its Ministry of Local Government and Rural Development to reduce, in agreed phases, by July 2006, the arrears of all city corporations, municipalities, and Dhaka Water Supply and Sewerage Authority to less than three (3) months equivalent of receivables; and (iii) to address the arrears of the jute mills, has undertaken to approve a loan to such jute mills to allow them to clear their arrears, and (iv) has undertaken to provide related supporting data to the Association on a quarterly basis, starting in October 2005.

Energy Sector

6. In order to clarify its policy for sale of captive private power to the grid, the Borrower has employed a group of consultants to draft a policy for captive power sales to the grid, under terms of reference acceptable to the Association.

7. The Borrower has adopted a time-bound plan for financial restructuring of the power sector, and has employed a group of consultants to draft a power sector financial recovery plan.

Broad-based Governance

8. The Borrower has implemented the first phase of a new budget process for FY06 budget in four selected ministries, which includes allocation of resources for programs integrating recurrent and capital spending within the medium-term expenditure framework, and in alignment with the Borrower's Poverty Reduction Strategy Paper priorities.

9. The Borrower has implemented a new personnel management system, agreed with the Association, including extended merit-based promotions, transfers within clusters, revised compensation system and enhanced training.

10. The Borrower's Cabinet has: (i) prepared a draft procurement law, including a provision for concession contracting, and (ii) undertaken to approve and send the said draft law to Parliament.

11. The Borrower: (i) has started operationalization of the Anti-Corruption Commission, through the appointment, in November 2004, of its Chairman and three Commissioners; (ii) has sanctioned the creation of an initial five hundred thirty six (536) posts at ACC; (iii) has agreed with the ACC on the creation of a Placement Committee to review all ACC screened staff of the former Bureau Against Corruption to determine their suitability for placement in the ACC; (iv) has agreed with the ACC on a more rigorous screening process going forward; and (v) has agreed with the ACC for it to present an organogram, and personnel and operational rules for the Government's approval.

International trade

12. The Borrower has removed, through appropriate legal and administrative measures, all protective quantitative restrictions, except those permitted on grounds of health, national security, religion and environmental protection, and those covered by the World Trade Organization's waivers.