

CONFORMED COPY

CREDIT NUMBER 2720 BD

Development Credit Agreement

(Gas Infrastructure Development Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 24, 1995

CREDIT NUMBER 2720 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 24, 1995, 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) Part A of the Project will be carried out by Gas Transmission Company Limited (GTCL) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to GTCL part of the proceeds of the Credit as provided in this Agreement;

(C) Part B of the Project will be carried out by Sylhet Gas Fields Limited (SGFL) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to SGFL part of the proceeds of the Credit as provided in this Agreement;

(D) Part C of the Project will be carried out by Petrobangla with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Petrobangla part of the proceeds of the Credit as provided in this Agreement;

(E) the Borrower intends to obtain from the Overseas Development Administration (ODA) a grant (the ODA Grant) in an amount equivalent to \$18,240,000 (eighteen million two hundred forty thousand pounds sterling) to assist in financing part of the Project on terms and conditions set forth in an agreement (the ODA Grant Agreement) to be entered into between the Borrower and ODA; 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 Petrobangla, GTCL and SGFL Project Agreements of even date herewith between the Association and Petrobangla, GTCL and SGFL, respectively;

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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "Petrobangla" means the Bangladesh Oil, Gas and Minerals Corporation established under the Bangladesh Oil, Gas and Minerals Corporation Ordinance, 1985 of the Borrower (Ordinance No. XXI of 1985) as amended in 1989;

(b) "Petrobangla Project Agreement" means the agreement between the Association and Petrobangla 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 Petrobangla Project Agreement;

(c) "Petrobangla Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Petrobangla pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Petrobangla Subsidiary Loan Agreement;

(d) "GTCL" means Gas Transmission Company Limited, a company operating under the Borrower's Companies Act of 1994;

(e) "GTCL Project Agreement" means the agreement between the Association and GTCL 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 GTCL Project Agreement;

(f) "GTCL Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and GTCL pursuant to Section 3.01 (c) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the GTCL Subsidiary Loan Agreement;

(g) "SGFL" means Sylhet Gas Fields Limited, a company operating under the Borrower's Companies Act of 1994;

(h) "SGFL Project Agreement" means the agreement between the Association and SGFL 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 SGFL Project Agreement;

(i) "SGFL Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and SGFL pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the SGFL Subsidiary Loan Agreement;

(j) "Gas Operating Companies" means the Bangladesh Gas Fields Company Limited, Sylhet Gas Fields Limited, Titas Gas Transmission and Distribution Company, Bakhrabad Gas Systems Limited, Jalalabad Gas Transmission and Distribution Company and Gas Transmission Company Limited, all operating under the Borrower's Companies Act of 1994;

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

(l) "Fiscal Year" means the Borrower's fiscal year commencing on July 1 and ending on June 30 of the following calendar year.

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 eighty-three million four hundred thousand Special Drawing Rights (SDR 83,400,000).

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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may, 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 4 to this Agreement.

Section 2.03. The Closing Date shall be June 30, 2000 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 May 15 and November 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 May 15 and November 15 commencing May 15, 2005 and ending November 15, 2034. Each installment to and including the installment payable on November 15, 2014, 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. (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 cause Petrobangla, GTCL and SGFL to perform in accordance with the provisions of the respective Project Agreement all the obligations of Petrobangla, GTCL and SGFL therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Petrobangla, GTCL and SGFL 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 relend part of the proceeds of the Credit to Petrobangla under a subsidiary loan agreement to be entered into between the Borrower and Petrobangla, under terms and conditions which shall have been approved by the Association which shall include the following:

- (i) interest on the Subsidiary Loan shall be payable at the rate of 8% per annum;
- (ii) the Subsidiary Loan shall be repaid over a period of fifteen years, including a grace period of five years; and
- (iii) the foreign exchange risk shall be borne by Petrobangla.

(c) The Borrower shall relend part of the proceeds of the Credit to GTCL under a subsidiary loan agreement to be entered into between the Borrower and GTCL, under terms and conditions which shall have been approved by the Association which shall include the following:

- (i) interest on the Subsidiary Loan shall be payable at the rate of 8% per annum;
- (ii) the Subsidiary Loan shall be repaid over a period of fifteen years, including a grace period of five years; and
- (iii) the foreign exchange risk shall be borne by GTCL.

(d) The Borrower shall relend part of the proceeds of the Credit to SGFL under a subsidiary loan agreement to be entered into between the Borrower and SGFL, under terms and conditions which shall have been approved by the Association which shall include the following:

- (i) interest on the Subsidiary Loan shall be payable at the rate of 8% per annum;
- (ii) the Subsidiary Loan shall be repaid over a period of fifteen years, including a grace period of five years; and
- (iii) the foreign exchange risk shall be borne by SGFL.

(e) The Borrower shall exercise its rights under the Petrobangla, GTCL and SGFL Subsidiary Loan Agreements 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 Petrobangla, GTCL and SGFL Subsidiary Loan Agreements or any provision thereof.

Section 3.02. 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 3 to this 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) in respect of their respective part of the Project shall be carried out by Petrobangla, GTCL and SGFL pursuant to Section 2.03 of the respective Project Agreement.

Section 3.04. The Borrower shall:

(a) annually carry out a review of (i) the progress of the Project, (ii) the financial performance of GTCL and SGFL, (iii) implementation of the gas sector's Priority Investment Program, and (iv) the Borrower's progress in carrying out further reforms in the sector;

(b) promptly after its completion, furnish to the Association the findings and recommendations of each such annual review;

(c) thereafter, implement such recommendations as the Borrower and the Association shall have agreed upon; and

(d) without limitation to the foregoing, by March 31, 1997 carry out a comprehensive mid-term review of the Project.

ARTICLE IV

Financial and Other Covenants

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

(i) maintain or cause to be maintained in accordance with sound accounting practices, records and 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) (i) of 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 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.

Section 4.02. (a) The Borrower shall take all such action as may be necessary on its part to ensure that the gas operating companies have sufficient internally

generated funds to meet operating expenses and debt service requirements, maintain an adequate working capital position, and with the exception of GTCL, self-finance a minimum of 20-30% of their respective investment programs.

(b) To meet the requirements set forth in paragraph (a) above, the Borrower shall, before the start of each fiscal year, review with the Association the margins allowed to the gas operating companies in respect of such year.

Section 4.03. The Borrower shall, prior to the beginning of each fiscal year, jointly review with the Association the gas sector's Priority Investment Program (PIP) and its implementation in the current fiscal year, as well as the implementation plan for the three succeeding fiscal years.

Section 4.04. The Borrower shall, by December 31, 1995 or such later date as the Association shall agree, carry out a joint review with the Association of the Borrower's action program for strengthening the institutional and regulatory frameworks for the petroleum/gas sector.

Section 4.05. The Borrower shall carry out or cause to be carried out a program satisfactory to the Association to clear public sector consumers' arrears for gas and condensate supplied by the gas operating companies.

Section 4.06. The Borrower shall take all such action as may be necessary on its part to enable GTCL and SGFL to comply with the provisions of Section 4.02 of their respective Project Agreement.

ARTICLE V

Remedies of the Association

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

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

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

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

(d) 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 Petrobangla, GTL or SGFL will be able to perform its obligations under the respective Project Agreement.

(e) The Borrower's Ordinance No. XXI of 1985 (as amended in 1989), establishing Petrobangla, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Petrobangla to perform any of its obligations under its Project Agreement.

(f) The Articles of Association of GTCL dated December 14, 1993, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of GTCL to perform any of its obligations under its Project Agreement.

(g) The Articles of Association of SGFL dated April 22, 1982, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of SGFL to perform any of its obligations under its Project Agreement.

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

(i) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of the ODA Grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the ODA Grant Agreement.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

(a) any event specified in paragraphs (a), (b) and (c) 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;

(b) any event specified in paragraphs (e) through (h) of Section 5.01 of this Agreement shall occur; and

(c) the event specified in paragraph (i) (i) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (i) (ii) of that Section.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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) The contract for the construction of the gas pipeline under Part A.1 of the Project has been signed;

(b) the consultants for Parts B.1 and B.2 of the Project have been appointed;

(c) the Petrobangla Subsidiary Loan Agreement has been executed on behalf of the Borrower and Petrobangla;

(d) the GTCL Subsidiary Loan Agreement has been executed on behalf of the Borrower and GTCL;

(e) the SGFL Subsidiary Loan Agreement has been executed on behalf of the Borrower and SGFL; and

(f) the ODA Grant Agreement has been signed.

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:

(a) that the Petrobangla, GTCL and SGFL Project Agreements have been duly authorized or ratified by Petrobangla, GTCL and SGFL, respectively, and are legally binding upon Petrobangla, GTCL and SGFL in accordance with their terms; and

(b) that the Petrobangla, GTCL and SGFL Subsidiary Loan Agreements have been duly authorized or ratified by the Borrower and Petrobangla, GTCL and SGFL, respectively, and are legally binding upon the Borrower and Petrobangla, GTCL and SGFL in accordance with their 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.

Section 6.04. The provisions of paragraph (b) of Section 5.02 of this Agreement shall cease and determine on the date on which the Development Credit Agreement shall terminate or on the date twenty years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. The Secretary, or the Additional Secretary, or any Joint Secretary, Deputy Secretary or Senior Assistant 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 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:	Telex:
BAHIRSAMPAD Dhaka	642226 SETU BJ

For the Association:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	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/ K. M. Ejazul Huq

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ D. Joseph Wood

Regional Vice President
South 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) Supply and erection works under turnkey contracts under:		100% of foreign expenditures and 75% of local expenditures
(a) Part A.1 of the Project	34,990,000	
(b) Part B.2 of the Project	14,150,000	
(2) Equipment and materials	10,360,000	100% of foreign expenditures, 100% of local expenditures (ex-factory cost) and 70% of local expenditures for other items procured locally
(3) Well drilling and completion services under Part B.1 of the Project	5,050,000	100%
(4) Civil works under Part B.1 of the Project	830,000	70% of local expenditures
(5) Consultants' services and training	10,420,000	100%
(6) Unallocated	7,600,000	
TOTAL	83,400,000	

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 payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 4,480,000, may be made in respect of Categories (1) and (5) on account of payments made for expenditures before that date but after July 1, 1994.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods, civil works, well drilling services and the services of consulting firms under contracts not exceeding \$100,000 equivalent, and (b) the services of individual consultants under contracts not exceeding \$50,000 equivalent, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in alleviating gas supply shortages, implementing sector reforms and developing the sector entities'

institutional capabilities.

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: GTCL

1. Construction of a 58 km, 30-inch diameter gas pipeline from Ashuganj to Bakhrabad.
2. Installation of a Supervisory Control and Data Acquisition (SCADA) and pipeline telecommunication system for the entire transmission trunkline from Kailashtilla to Chittagong and integration with existing facilities.
3. Provision of emergency response equipment to GTCL.
4. Provision of technical assistance to GTCL for: (a) the preparation of designs and bid documents, and assistance in bid evaluation and construction supervision for Part A.1 and A.2 of the Project; and (b) the development of GTCL's institutional capabilities.

Part B: SGFL

1. Development of three production wells at Rashidpur gas field.
2. Construction of gas processing facilities to purify gas from the new wells.
3. Provision of consultancy services to SGFL for the preparation of designs and bid documents, and assistance in bid evaluation and construction supervision for Part B.1 and B.2 of the Project.

Part C: Petrobangla

The provision of institution-building assistance to the Petrobangla group for:

- (a) the establishment of an environmental and safety management system;
- (b) the upgrading of the group's accounting systems and management information systems;
- (c) the strengthening of reservoir management capability; and
- (d) staff training in gas sector operations.

* * *

The Project is expected to be completed by June 30, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part E hereof, goods and works 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 1992 (the Guidelines), and in accordance with the following additional procedures:

(a) When contract award is delayed beyond the original bid validity period, such period may be extended once, subject to and in accordance with the provisions of paragraph 2.59 of the Guidelines, by the minimum amount of time required to complete the evaluation, obtain necessary approvals and clearances and award the contract. The bid validity period may be extended a second time only if the bidding documents or the request for extension shall provide for appropriate adjustment of the bid price to reflect changes in the cost of inputs for the contract over the period of extension. Such an increase in the bid price shall not be taken into account in the

bid evaluation. With respect to each contract made subject to the Association's prior review in accordance with the provisions of Part E.2 (a) of this Section, the Association's prior approval will be required for (i) a first extension of the bid validity period if the period of extension exceeds sixty (60) days, and (ii) any subsequent extension of the bid validity period.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. Construction of the gas pipeline under Part A.1 of the Project and of the gas processing facilities under Part B.2 of the Project may be undertaken under two separate turnkey contracts.

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: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A.1 hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Prequalification

Bidders for the turnkey construction of the gas pipeline under Part A.1 of the Project, and of the gas processing facilities under Part B.2 of the Project, and for the drilling service under Part B.1 of the Project shall be prequalified as provided in paragraph 2.10 of the Guidelines.

Part E: Other Procurement Procedures

1. Drilling site preparation works up to an aggregate amount not exceeding the equivalent of \$1,800,000 may, to the extent practicable, be grouped into bid packages and procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Equipment and materials of a specialized nature and well drilling services under Part B.1 of the Project, up to an aggregate amount not exceeding \$8,500,000 equivalent, may be procured under contracts awarded through limited international bidding procedures on the basis of evaluation and comparison of bids invited from a list of at least three qualified suppliers eligible under the Guidelines and in accordance with the procedures set forth in Sections I and II of the Guidelines (excluding paragraphs 2.8, 2.9, 2.55 and 2.56 thereof).

3. Items of a proprietary nature, up to an aggregate amount not exceeding the equivalent of \$1,300,000, may be procured through direct contracting with the suppliers or manufacturers of such items under procedures acceptable to the Association.

Part F: Review by the Association of Procurement Decisions

1. Review of prequalification:

With respect to the prequalification of bidders as provided in Part C hereof, the procedures set forth in paragraph 1 of Appendix 1 to the Guidelines shall apply.

2. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for civil works estimated to cost the equivalent of \$300,000 or more, and each contract for goods and well drilling and completion services estimated to cost the equivalent of \$200,000 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 4 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out 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 (the Consultant Guidelines). For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts, shall not apply to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (2) through (5) 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 \$5,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,000,000 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 be equal to or exceed the equivalent of SDR 25,000,000.

2. (a) Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

(b) Each payment (including a payment under a letter of credit) for an eligible expenditure in an amount equal to or less than the equivalent of \$500,000 shall be made exclusively out of the Special Account. The Association may from time to time, by notice to the Borrower, revise the threshold amount specified in the preceding sentence.

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;

(b) 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 the records and accounts for the Special Account;

(c) 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 the provisions of Section 6.02 of the General Conditions; or

(d) 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; or (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.

