

Public Disclosure Authorized

CONFIRMED COPY

CREDIT NUMBER 3917 BD

Development Credit Agreement

(Enterprise Growth and Bank Modernization Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 23, 2004

Public Disclosure Authorized



CREDIT NUMBER 3917 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 23, 2004, between PEOPLE'S REPUBLIC OF BANGLADESH (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter, dated May 12, 2004, from the Borrower describing a program of actions, objectives and policies designed to strengthen the Borrower's banking sector (the Program), and declaring the Borrower's commitment to the execution of the Program;

(B) 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;

(C) the Borrower intends to obtain from the United Kingdom Department for International Development (DFID) a grant in an amount equivalent to fifty million Sterling Pound (GBP 50,000,000) (the DFID Grant), to be administered by the Association, to assist in financing part of the Project on the terms and conditions set forth in an agreement to be entered into for such purposes (the DFID Grant Agreement);

(D) Part A of the Project will be carried out by the Bangladesh Bank with the Borrower's assistance and, as part of such assistance, the Borrower will make part of the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to Bangladesh Bank, as set forth in this Agreement; and

WHEREAS (E) 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 Bangladesh Bank (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), (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) “Administrative Agreement” means the agreement to be entered into between the Borrower and Bangladesh Bank 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 Administrative Agreement;

(b) “Bangladesh Bank” means the Borrower’s central bank established and operating under the Borrower’s Bangladesh Bank Order, 1972 (P.O. No. 127 of 1972) for the purpose of carrying out the business of central banking;

(c) “BSCIC” means Bangladesh Small and Cottage Industries Corporation, within the Borrower’s Ministry of Industry (MOI);

(d) “Beneficiary Enterprises” means any enterprise to which a PFI (as hereinafter defined) has provided or will provide a Subloan, and which enters into a Subloan Agreement with a PFI for an Investment Project;

(e) “BEPZA” means Bangladesh Export Processing Zone Authority;

(f) “BOI” means the Borrower’s Board of Investment;

(g) “EMP” means each environmental management plan prepared by PC (as hereinafter defined), for the purpose of the Project;

(h) “Finance Division” or “FD” means the Finance Division of MOF (as hereinafter defined);

(i) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(j) “FY” or “fiscal year” means the fiscal year of the Borrower, commencing July 1 and ending June 30 of each year;

(k) “Indicators” means indicators referred to in Schedule 6 to this Agreement;

(l) “Investment Project” means: (i) a new specific development project; and (ii) an expansion of an existing project, to be carried out by a Beneficiary utilizing the proceeds of a Subloan;

(m) “MOF” means the Borrower’s Ministry of Finance;

(n) “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, Sonali Bank, Janata Bank, Agrani Bank and Rupali Bank;

(o) “Participation Agreement” means the agreement to be entered into between Bangladesh Bank and each Participating Financial Institution (as hereinafter defined) pursuant to Section 2.02 of the Project Agreement for Part A of the Project;

(p) “Participating Financial Intermediaries” or “PFI” means, inter alia, the BASIC Bank, BRAC Bank, MIDAS Financing, Islamic Bank, Dhaka Bank and Prime Bank, or any other financial institution that meets the eligibility criteria as set out in Part A of Schedule 1 to the Project Agreement;

(q) “PFI Subsidiary Loan” means the loan provided by Bangladesh Bank to a PFI;

(r) “PC” means the Privatization Commission;

(s) “PCU” means the Project Coordination Unit, within the Finance Division of the MOF referred to in paragraph 2 of Schedule 4 to this Agreement;

(t) “PMO” means the Borrower’s Prime Minister’s Office;

(u) “Procurement Regulations” means the Borrower’s Procurement Regulations of October 1, 2003, acceptable to the Association, published in the Borrower’s Gazette, and which is to be observed in the carrying out of the Project;

(v) “Project Agreement” means the agreement between the Association and Bangladesh Bank 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;

(w) “SME” means small and medium enterprises;

(x) “Special Account” means the account referred to in Section 2.02(b) of this Agreement, and described in the Circular dated September 2, 1991, as revised on May 4, 1992 and December 24, 1992, of the Finance Division of the Borrower’s Ministry of Finance entitled “Procedures for Operation of Convertible Taka Special Account (CONTASA) of IDA-Aided Development Projects Under Government-Departments, Autonomous, Semi-Autonomous Bodies,” as such Circular may be amended from time to time in agreement with the Association;

(y) “SOE” means state-owned enterprises, enterprises owned by the Borrower;

(z) “Subloan” means a loan, including lease financing, made or proposed to be made by a PFI to a Beneficiary Enterprise out of the equivalent of the proceeds of the Credit provided to it by Bangladesh Bank; and

(aa) “Taka” or “Tk” means the currency of the Borrower.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred seventy two million three hundred thousand Special Drawing Rights (SDR 172,300,000).

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: (i) amounts paid (or, if the Association shall so agree, amounts to be paid) by Bangladesh Bank on account of withdrawals made by a Beneficiary under a Subloan, to meet the reasonable cost of goods and services required for the Investment Project under Part A of the Project 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.

(b) The Borrower may, for the purposes of the Project, open and maintain in Taka a special deposit account (MOF Special Account) in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be November 30, 2009, 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 June 1 and December 1 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 June 1 and December 1, commencing December 1, 2014 and ending June 1, 2044. Each installment to and including the installment payable on June 1, 2024, 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.

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: (i) shall carry out Parts B, C, D, E and F of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and telecommunications practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts B, C, D, E and F of the Project; and (ii) without any limitation or restriction upon any of its other obligations under this Development Credit Agreement, shall cause Bangladesh Bank to perform in accordance with the provisions of the Project Agreement all the obligations of Bangladesh Bank 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 Bangladesh Bank to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Parts B, C, D, E and F of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall make available to Bangladesh Bank the proceeds of the Credit allocated from time to time to the Category 5, under an Administrative Agreement to be entered into between the Borrower and Bangladesh Bank under terms and conditions satisfactory to the Association.

(d) The Borrower shall exercise its rights under the Administrative Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of Part A of the Project, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Administrative Agreement or any provision thereof.

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 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) 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 Borrower and the Association, a plan for the future operation of Parts B, C, D, E and F of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. 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 Part A of the Project shall be carried out by Bangladesh Bank pursuant to the provisions of Section 2.03 of the Project Agreement.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Parts B, C, D, E and F of the Project.

(b) The Borrower shall:

(i) have the financial statements referred to in paragraph (a) of this Section (balance sheets, statements of income and expenses and related statements) for each fiscal year (or other period agreed to by the Association), in accordance with consistently applied

auditing standards acceptable to the Association, 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 (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

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

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

Section 4.02. (a) The Borrower 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 planned 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 planned Project implementation; 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 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; 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

Remedies of the Association

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

(a) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

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

(c) As a result of events which have occurred after the date of this Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that Bangladesh Bank will be able to perform its obligations under the Project Agreement.

(d) The DFID Grant Agreement shall have failed to become effective by September 1, 2004, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that 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.

- (e) (i) Subject to subparagraph (ii) of this paragraph, the right of the Borrower to withdraw the proceeds of any grant made to the Borrower for the financing of the Project shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or

- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, 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(h) of the General Conditions, the following additional event is specified:

- (a) the event specified in paragraph (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty (60) days after notice thereof shall have been given by the Association to the Borrower; and

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

ARTICLE VI

Effective Date; Termination

Section 6.01. The following event is specified as 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 Administrative Agreement has been executed on behalf of the Borrower and Bangladesh Bank.

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) the Project Agreement has been duly authorized or ratified by Bangladesh Bank and is legally binding upon Bangladesh Bank in accordance with its terms; and

- (b) the Administrative Agreement has been duly authorized by the Borrower and Bangladesh Bank and is legally binding upon the Borrower and Bangladesh Bank 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. 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 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
Sher-e-Bangla Nagar
Dhaka, Bangladesh

Cable address:	Telex:	Facsimile:
BAHIRSAMPAD	642226 SETU BJ	880-28113088

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/ Mirza Tasadduq Hussain Beg

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Christine Wallich

Country Director
Bangladesh

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	14,640,000	80%
(2) Goods	5,590,000	100% of foreign expenditures; 100% of local expenditures (ex- factory costs); and 80% local expenditures for other items procured locally
(3) Consultants' services, including training	16,750,000	80%
(4) VRS Payments	111,633,000	100% until September 1, 2004, 70% until December 31, 2007; and 0% thereafter
(5) Subloans	6,210,000	100%
(6) Operating Costs	250,000	80%
(7) Unallocated	17,230,000	
TOTAL	<u>172,300,000</u> =====	

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 and services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods and services supplied from the territory of the Borrower;

(c) the term “VRS payments” means all payments made by the Borrower to the employees of SOEs separated under terms and conditions, and a plan acceptable to the Association; and

(d) the term “Operating Costs” means the costs incurred by the PCU on account of office supplies, utilities and consumables and equipment maintenance.

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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 48,250,000, may be made in respect of Category 4 on account of payments made for expenditures before that date but after June 1, 2003; (b) payments made on account of VRS payments under Category 4, unless the Borrower has furnished to the Association, evidence that the payments have been made in accordance with the terms and conditions agreed with the Association; and (c) payments made on account of Subloans under Category 5, unless the Subloans have been made in accordance with the terms and conditions agreed with the Association.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$500,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) for services of individual consultants costing less than \$100,000 equivalent per contract; (d) for services of consulting firms under contracts costing less than \$50,000 equivalent per contract; and (e) Operating Costs, all 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: (a) to trigger employment generation through private sector enterprise growth and modernization of the banking system; and (b) to promote urgently needed reforms within the SOEs and the NCBs.

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: Enterprise Growth

1. Provision of technical advisory services and logistical support to Bangladesh Bank, and other banking and financial institutions in developing markets to ensure sufficient funding flows to viable enterprise activities.
2. Establishment of a credit line for Investment Projects to be developed by small scale enterprises and financial institutions fulfilling predetermined criteria, and financing of subloans therefor.
3. Financing of a series of activities for the further strengthening of business development services to the under-served SMEs.
4. Provision of technical advisory services to reducing administrative overhead costs related to SME lending and to make these activities more sustainable, including work with a select group of SME lenders to utilize ICT more effectively to reduce these costs.
5. Provision of technical advisory services for the establishment of supply chain linkages between small and large scale firms to further develop the former class of business enterprises.
6. Provision of technical advisory services to targeted geographical areas for expected SME growth, to help offset impact of closure of some of the loss making SOEs in those areas.

Part B: Refurbishment of Assets

Provision of technical advisory services and logistical assistance to develop plans for alternative use of the facilities, and carrying out of civil works related to renovation, up-gradation, rehabilitation, and dismantling of obsolete equipment to make them attractive for possible private sector investment, including: (a) demolishing of the Chittagong Steel Mills along with resolution of all environmental issues at the site, in

preparation for its conversion into an export processing zone; (b) conversion of the Adamjee Jute Mills into an industrial park, along with resolution of all environmental issues at the site; (c) demolishing of existing facilities at the Chittagong Chemical Complex site in preparation for its conversion into industrial park, by MOI or the private sector; (d) demolishing of existing facilities at the Khulna Newsprint Mills site in preparation for its conversion into industrial park, by MOI or the private sector, for SME use; and (e) refurbishing of any other enterprises identified by the Borrower.

Part C: Institutional Strengthening

1. Support for investment promotion, provision of technical advisory services and logistical assistance to BEPZA, including: (a) organization of investment promotion seminars for prospective investors of different countries through arrangement of seminars, workshop and meeting with the investors through different government and non-governmental agencies and trade bodies; (b) training and familiarization tours for the senior officials of BEPZA to other EPZs/FTZs/SEZs of other countries; (c) ICT program to develop integrated management information system in BEPZA to provide faster services to the existing and prospective investors and other stakeholders in the process; and (d) employment of counselors to facilitate and upgrade a sound labor management relationship in the EPZs of BEPZA.

2. Provision of equipment, technical advisory services and logistical assistance to BOI: (a) in the organization of a comprehensive and systematic training on computer literacy, investment functions and procedures, including the development of specific training modules to be imparted on-the-job and off-the-job, and executive development programs; (b) in the physical infrastructure for business process automation, through LAN Setup including a server, personal computers, LAN printers and other equipment and specialized database software development; and (c) cosponsoring selected promotional programs such as publication of Investment Handbook, Sector Guides and Newsletter, investment seminars, symposia and conferences and carrying out of policy research, sectoral studies and implementation and monitoring surveys.

3. Provision of equipment and facilities, technical advisory services and logistical assistance to the Privatization Commission to enhance its capacity, particularly in the areas of asset valuation, appraisal, monitoring and evaluation of SOEs planned for privatization, including: (a) developing specific training modules; (b) funding executive development programs; (c) providing training on automation applications; (d) organizing functional training workshops; (e) provision of computer hardware and software such as LAN, personal computers, and specialized software development; (f) publication of investment handbook, sector guides and newsletters; and (g) organizing investment seminars, symposia and conferences.

4. Provision of technical advisory services and equipment for BSCIC, in a number of areas relevant for the carrying out of the Project.

5. Provision of technical advisory services to the Borrower's relevant agencies to draw up a set of rules and procedures on the winding up of SOEs and to design a flexible and transparent system for disposing of assets efficiently.

Part D: Support to Voluntary Retirement Schemes

Provision of voluntary retirement packages to the staff of about 95 SOEs slated for liquidation, privatization or closure.

Part E: Banking Reform

Provision of: (a) technical advisory services, logistical support, office equipment and running expenses of the revamped Joint MOF/Bangladesh Bank Working Group on NCBs to assist the Borrower in formulating the resolution strategy for the NCBs; and (b) all relevant technical advisory services to facilitate the privatization of Rupali Bank, provision of services of an external management team at Agrani Bank to implement the resolution plan, and provision of services of management experts at Sonali Bank and Janata Bank to implement their resolution plans and to provide management support.

Part F: Public Awareness, Monitoring and Evaluation, and Tracking

1. Provision of equipment, technical advisory services and logistical assistance for awareness raising, measurement and evaluation of the reform process, and various tracking envisaged under the Project.
2. Provision of equipment, technical advisory services and logistical assistance for the development of an improved information campaign to inform the public of the objectives, strategy, process, and positive impact of privatization.
3. Provision of equipment, technical advisory services and logistical assistance to carry out public outreach campaigns, and monitoring and evaluation of the reform agenda supported by this Project.

* * *

The Project is expected to be completed by May 31, 2009.

SCHEDULE 3

Procurement

Section I. Procurement of Goods and Works

Part A: General

Except as the Association shall otherwise agree, procurement of the goods and works to be financed out of the proceeds of this Credit shall be governed by the provisions of this Section I.

Part B: International Competitive Bidding

1. All goods estimated to cost the equivalent of \$500,000 or more per contract and works estimated to cost the equivalent of \$5,000,000 or more per contract, shall be procured under contracts awarded in accordance with the provisions of Section II 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 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 prequalify or 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

All contracts for works estimated to cost less than \$5,000,000 equivalent per contract, and all contracts for goods estimated to cost less than \$500,000 equivalent per contract, may be procured under National Competitive Bidding procedure in accordance with the Borrower's Procurement Regulations.

2. National Shopping

All contracts for goods estimated to cost less than \$30,000 equivalent per contract, may be procured under National Shopping procedure in accordance with the Borrower's Procurement Regulations.

3. Direct Contracting

All contracts for goods estimated to cost less than \$2,000 equivalent per contract, may be procured under Direct Contracting procedure in accordance with the Borrower's Procurement Regulations.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, a procurement plan for goods and works, which shall include contract cost estimates, contract packaging, and applicable procurement procedures, 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. Such plan shall be updated at least every 12 months during execution of the Project always covering the next 18 months, and each such updating shall be furnished to the Association for its review and approval. 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.

2. Prior Review

With respect to each contract for works and goods estimated to cost the equivalent of \$500,000 or more each, and each first contract for goods and works, 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 Association may, at its own discretion, carry out post review/procurement audit of any contract awarded in accordance with this Section. The Borrower shall carry out annual procurement review of such contracts by independent consultant in accordance with the provision of the Borrower's Procurement Regulations.

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 Schedule.

Part B: Quality- and Cost-based Selection

1. 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.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality- and Cost- Based Selection (QCBS)/Fixed Budget Selection (FBS)

Services through firms estimated to cost less than \$200,000 per contract may be procured following quality- and cost-based selection or selection under a fixed budget method, in accordance with the Borrower's Procurement Regulations. All contracts costing \$200,000 or more, but less than \$500,000 shall follow the QCBS or FBS method in accordance with the Consultant Guidelines.

2. Fixed Budget Selection (FBS) or Least Cost Selection (LCS)

Services through firms estimated to cost less than \$100,000 per contract may be procured following FBS or LCS method, in accordance with the Borrower's Procurement Regulations.

3. Single-Source Selection (SSS)

Specific consultants' services through firms, estimated to cost less than \$75,000 per contract, may, with the Association's prior agreement, be procured following SSS method in accordance with the Borrower's Procurement Regulations.

4. Individual Consultants

Services of individual consultants for tasks, estimated to cost \$50,000 and more, 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. All other individual consultants may be selected following Borrower's Procurement Regulations.

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

1. Selection Planning

Prior to the issuance of any requests for proposals, the proposed plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection procedures, shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Such plan shall be updated at least every 12 months during the execution of the Project always covering the next 18 months period, and each such updating shall be furnished to the Association for its review and approval. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

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 Association may, at its own discretion, carry out post review of any contract awarded in accordance with this Section. The Borrower shall carry out procurement review of such contracts by independent consultant in accordance with the provision of Borrower's Procurement Regulations.

SCHEDULE 4

Implementation Program

1. The Borrower shall carry out Parts B, D, E and F of the Project through MOF, and Part C of the Project through the PMO.
2. The Borrower shall establish a Project Coordination Unit (PCU) in the Finance Division of the MOF to guide, supervise, coordinate and monitor all major activities under the Project. The overall Project shall be executed and managed by the Finance Division of the MOF, with the Additional Secretary of the Finance Division as the Project Coordinator. The specific technical assistance support for the PC, BOI, and BEPZA will be executed by those agencies, with the involvement of the MOF, the Borrower's Ministry of Jute, the Borrower's Ministry of Textiles, the Borrower's Ministry of Industry, the Privatization Commission, BOI and BEPZA.
3. The Borrower shall:
 - (a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Indicators set forth in Schedule 6 to this Agreement, the carrying out of Parts B, C, D, E and F 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 December 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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 Parts B, C, D, E and F of the Project and the achievement of the objectives thereof during the period following such date; and
 - (c) review with the Association, by February 28, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of Parts B, C, D, E and F 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 5

Special Account

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means all Categories set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of MOF Special Account;

(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 of Tk 944,000,000, to be withdrawn from the Credit Account and deposited into the MOF Special Account pursuant to paragraph 3(a) of this Schedule.

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

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts 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 into the respective 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 eligible Categories, and in the 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, minus the total amount of all outstanding special commitments 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.

SCHEDULE 6

Performance Indicators

For the purpose of the monitoring of the Project, the Borrower shall use the following indicators:

1. About 1,500 additional small enterprises receive financing from participating financial institutions/banks.
2. Chittagong Steel Mills (CSM) handed over to BEPZA in Year 1 and refurbished and converted to an EPZ by the end of Year 3.
3. Adamjee Jute Mills premises converted to an industrial park by the end of Year 4;
4. Khulna Newsprint Mill and the Chittagong Chemical Complex refurbished and converted to industrial park by the end of Year 5.
5. About 80,000 workers retired with a VRS package (of which 45,000 workers financed under the Project) by the end of Year 5.
6. SOE losses for the 95 manufacturing SOEs reduced on average by 10% annually.
7. Around 20 percent of workers retrained or counseled obtain alternative employment within 12 months and a further 20 percent within 18 months – after receiving retraining/counseling services.
8. PC privatizes/liquidates an average of 10 SOEs per year over the life of the Project.
9. BOI and BEPZA facilitate US\$40 million per annum additional FDI.
10. A new external management team hired by mid-2004, to manage Agrani Bank.
11. Management experts for key positions in place at Sonali Bank and Janata Bank by end-2004.
12. Rupali Bank brought to the point of divestment by end-2004.
13. Agrani Bank corporatized and by end-2005 brought to the point of divestment where it will hold out promise for potential strategic partner to bid for substantial shareholding with management control.

14. Janata Bank corporatized and by end-2006 brought to the point of divestment where it will hold out promise for potential strategic partner to bid for substantial shareholding with management control.
15. Sonali Bank corporatized and brought to the point where a minority shareholding can be divested over the medium term.
16. Newspapers and media report fairly and unbiasedly about the SOEs and NCB reforms in Bangladesh.