

CONFORMED COPY

GRANT NUMBER H107-BD

Development Grant Agreement

(Economic Management Technical Assistance Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 30, 2004

GRANT NUMBER H107-BD

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated June 30, 2004, between the PEOPLE'S REPUBLIC OF BANGLADESH (the Recipient) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project; and

(B) the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Grant to the Recipient upon the terms and conditions set forth in this Agreement;

NOW, THEREFORE, the parties hereto, hereby, agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) Sections 3.02, 3.03, 3.04(a), 3.04(b), 3.05, 6.05 and Article VII, are deleted in their entirety.

(b) Wherever used in the General Conditions, the following terms are modified to read as follows:

- (i) The term "Borrower" is modified to read "Recipient".
- (ii) The term "Credit" is modified to read "Grant".
- (iii) The term "credit" is modified to read "grant"; except that where used in Sections 6.02(a)(ii) and 6.02(c)(i), as modified below, the term "credit" shall continue to read "credit".
- (iv) The term "Credit Account" is modified to read "Grant Account".

(v) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.

(c) Article IV is modified as follows:

(i) Section 4.02(a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02 Currencies in which Commitment Charges are Payable

(a) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant Agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(ii) Wherever used in Section 4.02(c) and (e) of the General Conditions the words “principal and service charges” are modified to read “commitment charge”.

(iii) Section 4.03 and its heading are modified to read as follows:

“Section 4.03 Amount of the Grant.

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

(d) Section 6.02 is modified as follows:

(a) The phrase “any other development credit agreement” in Section 6.02(a)(ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement”.

(b) The phrase “any development credit agreement” in Section 6.02(c)(i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement”.

(e) The words “The principal of, and any other charges on” in paragraph (a) of Section 8.01 are modified to read “The commitment charge on”.

(f) Section 12.05 and its heading are modified to read as follows:

“Section 12.05. Termination of Development Grant Agreement.

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant 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) “Bangladesh Bank” means the Recipient’s central bank;
- (b) “BBS” means Bangladesh Bureau of Statistics;
- (c) “EMTAP” means Economic Management Technical Assistance Program;
- (d) “ERD” means Economic Relations Division of the MOF (hereinafter defined);
- (e) “Finance Division” means Finance Division of the MOF (as hereinafter defined);
- (f) “Financial Monitoring Report” means each report prepared in accordance with Section 4.02 of this Agreement;
- (g) “FY” or “Fiscal Year” means the fiscal year of the Recipient, which commences on July 1 of each calendar year and ends on June 30 of the calendar year thereafter;
- (h) “ICAB” means the Institute of Chartered Accountants of Bangladesh;
- (i) “ICMAB” means the Institute of Cost and Management Accountants of Bangladesh;
- (j) “I-PRSP” means the Recipient’s Interim Poverty Reduction Strategy Paper;
- (k) “MOC” means the Recipient’s Ministry of Commerce;

- (l) “MOE” means the Recipient’s Ministry of Establishment;
- (m) “MOF” means the Recipient’s Ministry of Finance;
- (n) “MOI” means the Recipient’s Ministry of Information;
- (o) “MOSICT” means the Recipient’s Ministry of Science and Information and Communication Technology;
- (p) “NBR” means the Recipient’s National Board of Revenue;
- (q) “Results Monitoring Indicators” means indicators referred to in Schedule 6 to this Agreement;
- (r) “Procurement Regulations” means the Recipient’s Procurement Regulations of October 1, 2003, acceptable to the Association, published in the Recipient’s Gazette, and which is to be observed in the carrying out of the Project;
- (s) “PSC” means the Recipient’s Public Service Commission;
- (t) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;
- (u) “Steering Committee” means the steering committee referred to in paragraph 2 of Schedule 4 to this Agreement;
- (v) “Sub-project” means any of the Sub-projects carried out by various executing agencies on the basis of respective approved TAPPs (as hereinafter defined) under the Project;
- (w) “Taka” means the currency of the Recipient;
- (x) “TAPP” means Technical Assistance Project Proforma;
- (y) “Upazila” means a sub-district, the lowest administrative unit in the territory of the Recipient; and
- (z) “VAT” means value added tax.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to thirteen million eight hundred thousand Special Drawing Rights (SDR 13,800,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant 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 to be financed out of the proceeds of the Grant.

(b) The Recipient may, for the purposes of the Project, open and maintain in dollars a special deposit account (Special Account) in Bangladesh 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 December 31, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant 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 Recipient from the Grant 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 2.05 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 Recipient; and (iii) in United States dollars or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on March 1 and September 1 in each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, and environmental practices, and shall provide, promptly as needed, the funds, facilities, services, and other resources required for the Project.

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

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 Grant 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 Recipient shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, a plan for the future operation of the Project; and

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

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall establish and maintain or cause to be established and maintained 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 the Project.

(b) The Recipient shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for each Fiscal Year (or other period agreed to by the Association) audited, 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 Grant Account were made on the basis of statements of expenditure, the Recipient 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 Grant 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) Without limitation upon the Recipient's progress reporting obligations elsewhere in this Agreement, the Recipient shall prepare and furnish to the Association a Financial Monitoring Report (FMR), 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 Grant, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in implementation of the Project, both cumulatively and for the period covered by said report, and explains variances between the actual and planned implementation of the Project; 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 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

Effectiveness; Termination

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Grant Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) The Recipient has approved the TAPP for the Sub-project to be executed by World Bank Branch-1 of ERD for supporting central management of the Project.

(b) The Recipient has approved and implemented the proposal to augment capacity of World Bank Branch-1 of ERD, in line with agreed staffing, through posting of adequate staff with relevant expertise and adequate experience, including two officials for financial management and one official for procurement, and provision of necessary accommodation and administrative support.

(c) The Recipient has constituted the Steering Committee with terms of reference acceptable to the Association.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Recipient; Addresses

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

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Economic Relations Division
Ministry of Finance
Government of the People's Republic
of Bangladesh
Sher-e-Bangla Nagar
Dhaka, Bangladesh

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

For the Association:

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

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

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/ Badiur Rahman

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ David Hughart

Acting Country Director
Bangladesh

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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

<u>Category</u>	<u>Amount of the Grant allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods of (ex- 70%		100% of foreign Expenditures; 100% local expenditures (ex-factory costs); and of local expenditures for other items procured locally
(a) For Parts B, C, D and F	3,520,000	
(b) For Parts A and E	1,590,000	
(2) Consultants' Services, including Training, Workshops, Seminars and other Dissemination Activities		80%
(a) For Parts B, C, D and F	3,560,000	
(b) For Parts A and E	2,500,000	
(3) Incremental Operating Costs		80% for FYs 2005 and 2006, 70% for FYs 2007 and 2008, and 60% thereafter
(a) For Parts B, C, D and F	790,000	
(b) For Parts A and E	460,000	

(4) Unallocated	1,380,000
TOTAL	<u>13,800,000</u>
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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 Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

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

(c) the term “Incremental Operating Costs” means the salaries and allowance of incremental staff, other than the Recipient’s regular employees, incremental operation and maintenance costs of equipment and vehicles, and costs of consumables, procured under the Project.

3. Notwithstanding the provisions of paragraph 1 above: (a) no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement; and (b) no withdrawals shall be made in respect of payments made for expenditures for Sub-projects, unless: (i) the Recipient has approved the TAPPs for such Sub-project, in accordance with the procedures agreed with the Association, and described in paragraph 5 of Schedule 4 to this Agreement; (ii) the Recipient has formally assigned the responsibilities for effectively managing the Sub-project, including appointing, posting or assigning the responsibility to existing officials in the executing agencies for management, procurement, and accounting; and (iii) the Recipient has provided proposals, satisfactory to the Association, for developing monitoring and evaluation systems for the Sub-projects throughout the implementation of the Project.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$300,000 equivalent; (b) services under contracts costing less than \$100,000 equivalent for employment of firms, and \$50,000 for employment of individuals; (c) local training, workshops/seminars and other dissemination activities; and (d) incremental staff salaries and operating costs, all under such terms or conditions as the Association shall specify by notice to the Recipient.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Recipient to strengthen its core economic management capacities and contribute to better policy management and better functioning of the public administration and the corporate sector.

The Project consists of the following Parts, subject to such modifications thereof as the Recipient and the Association may agree upon from time to time to achieve such objectives:

Part A: Strengthening Capacities for Better Policy Formulation and Implementation and Improving the Functioning of the Civil Service and Public Administration

Supporting capacity building through carrying out of Sub-projects related to economic management and public administration, in line with the priorities of Recipient's I-PRSP, including, *inter alia*, strengthening: (a) the public administration on issues of personnel management and training; (b) project preparation and management; (c) performance monitoring of SOEs; (d) monitoring and management of external debt service liabilities owed by the Recipient; (e) BBS's capacity for monitoring growth and employment; (f) poverty monitoring and evaluation; (g) export competitiveness and trade-related capacity building; (h) land records and management; and (i) improvement of public sector financial management.

Part B: Modernizing Revenue Administration

1. Provision of technical advisory services and equipment to modernize revenue administration, through NBR, to help initiate a phased shift to a functional organizational design, and to strengthen the role and capacity of NBR, including provision of the services of a change management advisor, transitional support of a senior IT/MIS manager and three IT/MIS assistant managers.
2. Improving human resource management policies and practices of the NBR including those relating to recruitment, compensation and career development, to support implementation of a new strategic development plan for the NBR.
3. Carrying out of: (a) an assessment of the information technology needs of the revenue administration, based on a new and modernized organizational design; and
(b) needs-assessment of NBR to move towards a new and modernized tax

administration, based on an improved functional and technical design that support new functions and processes.

4. Provision of technical advisory services: (a) to improve customs valuation, assessment and clearance procedures and techniques of risk assessment of potential tax evasion and revenue loss; and (b) to improve information generated by ASYCUDA system modules to undertake reforms leading to speedier and more efficient and transparent customs clearance operations.
5. Strengthening of the Research and Statistics Wing of NBR through the provision of technical advisory services, including training, and software and hardware to improve the quality and usefulness of work undertaken by the Wing on estimation of the revenue impacts of tax measures, and carrying out analysis of incidence of tax burden, collection trends, compliance gaps, and impact of tax policy changes.
6. Strengthening of training activities for revenue administration staff, through the development of modern curricula of NBR's training academies in the area of three major taxes and through programs for training of trainers for NBR staff.

Part C: Strengthening Accounting and Auditing Practices in the Corporate Sector

1. Preparation of a draft Financial Reporting Act and design of an independent financial reporting regulatory body.
2. Establishment and operationalization of a financial reporting council to act as an independent regulatory body.
3. Strengthen the capacity of ICAB, through twinning arrangement with a professional accountancy body of a developed country.
4. Strengthening the capacity of ICMAB with the assistance of a professional body of management accountants of international standards.
5. Provision of technical advisory services to strengthen capacities of Bangladesh Bank, the Securities and Exchange Commission, and Department of Insurance to enable them to deal efficiently with issues relating to financial reporting by the regulated entities.
6. Provision of technical advisory services to implement a comprehensive plan for education and training including improving curricula and quality of teaching of accounting and auditing by universities, colleges, ICAB and ICMAB

and other entities to facilitate implementation of international financial reporting standards and international standards of accounting through high quality education.

Part D: Improving Use of Information and Communication Technology (ICT)

1. Provision of technical advisory services and equipment to MOSICT to develop an E-Government strategy and a National ICT road map, and carrying out of an assessment of the legal and regulatory changes required to ensure that all e-documentation filings and processes are recognized as being legally valid.
2. Provision of technical assistance and investment support in establishing an integrated electronic communications network consisting of e-mail, websites and an integrated records and information system.
3. Provision of technical advisory services to develop and deliver training programs for civil servants to become IT-literate and promote ICT use in government.

Part E: Strengthening Strategic Communication between Government and Stakeholders

1. Provision of technical advisory services, equipment and logistical assistance for the establishment of a Strategic Communications Unit under the MOI.
2. Training for officials on strategic communications for reforms, including revamping training curricula of the National Institute of Mass Communication (NIMCO).
3. Provision of technical advisory services, equipment and logistical assistance for the establishment of an integrated E-network.
4. Provision of technical advisory services, equipment and logistical assistance for the enhancing communication capacity in the different ministries and agencies of the Recipient agencies.
5. Carrying out of additional activities to support strategic communication for reform agreed upon by the Recipient and the Association.

Part F: Logistical and Consultancy Support to the Central Management of EMTAP by

the World Bank Branch-1 of ERD

1. Provision of office equipment and logistical support to the team managing the EMTAP centrally.
2. Carrying out dissemination activities to inform and familiarize ongoing and potential agencies and other stakeholders about the Project, including the guiding principles for Sub-project selection and funding.
3. Provision for short-term procurement consultancy services and independent post audit of procurement on a sample basis by chartered accountancy firms.

* * *

The Project is expected to be completed by June 30, 2009.

SCHEDULE 3

Procurement

Section I. Procurement of Goods

Part A: General

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

Part B: International Competitive Bidding

1. All goods estimated to cost the equivalent of \$300,000 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 goods estimated to cost less than \$300,000 equivalent per contract, may be procured under national competitive bidding procedure, in accordance with the Recipient's Procurement Regulations.

2. International/National Shopping

All goods estimated to cost less than \$20,000 equivalent per contract, may be procured under international or national shopping procedure in accordance with the Recipient's Procurement Regulations.

3. Direct Contracting

All goods estimated to cost less than \$2,000 equivalent per contract, may be procured under contracts awarded through direct contracting procedure, in accordance with the Recipient'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, 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 the 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 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

(a) With respect to each contract for goods estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) Notwithstanding the provision of paragraph (a) above, the Association may, at its own discretion, carry out review of any contract awarded in accordance with this Section.

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 and may take action in accordance with paragraph 1.13 of the Guidelines. The Recipient shall carry out procurement review of such contracts by independent consultant in accordance with the provision of the Recipient'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 Recipient's Procurement Regulations. All contracts costing \$200,000 or more but less than \$750,000 shall follow the QCBS or FBS method in accordance with the Consultant Guidelines.

2. Fixed Budget Selection (FBS)/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 Recipient's Procurement Regulations.

3. Single-Source Selection (SSS)

Specific consultants' services through firms estimated to cost less than \$300,000 per contract, may, with the Association's prior agreement, be procured following SSS method, in accordance with the Recipient's Procurement Regulations.

4. Individual Consultants

Services of individual consultants, estimated to cost \$50,000 or more for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.4 of the Consultant Guidelines. All other individual consultants may be selected following Recipient's Procurement Regulations.

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

1. Selection Planning

Prior to the issuance to consultants 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/ procurement audit of any contract awarded in accordance with this Section and may take action in accordance with paragraph 1.18 of the Consultant Guidelines. The Recipient shall carry out procurement review of such contracts by independent consultant in accordance with the provision of the Recipient's Procurement Regulations.

SCHEDULE 4

Implementation Program

1. The Recipient shall assign to the World Bank Branch-1 of ERD the responsibility to act as the focal point for the implementation of the Project and to execute Part F of the Project. Individual Sub-projects under Part A of the Project shall be implemented by various executing agencies. NBR shall execute Part B of the Project. The MOC, shall execute the activities relating to ICAB, ICMAB and education and training in accounting and auditing under Part C of the Project. The Finance Division shall execute the activities relating to financial reporting act, financial reporting regulatory body and Securities and Exchange Commission, Bangladesh Bank and Department of Insurance under Part C of the Project. The MOSICT shall execute Part D of the Project. Part E shall be executed by MOI. Sub-projects, approved during the implementation, shall also be managed by the Ministry or agency that has prepared the proposal and has the mandate to carry out the activities to be financed under such Sub-project.

2. The Recipient shall, until the completion of the Project, maintain a Steering Committee, to be responsible for: (a) assessing the priority of the technical assistance Sub-projects in terms of consistency with the strategic framework and the priority objectives of the sector strategy presented in the I-PRSP; (b) monitoring the policy aspects and implications of the Sub-project activities supported under the Project; and (c) monitoring achievement of objectives and results of the overall Project, and initiating adequate measures to effectively address constraints that might be affecting the efficient implementation of the Project and the full realization of expected results. The Steering Committee shall include representatives from ERD, Finance Division, Socio-Economic Infrastructure Division of the Planning Commission, Ministry of Establishment, and the Implementation Monitoring and Evaluation Division (IMED) of the Recipient's Ministry of Planning.

3. (a) The Recipient shall:
- (i) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Results Monitoring Indicators set forth in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;
 - (ii) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about June 30, 2007, a report integrating the results of the monitoring and evaluation activities performed pursuant to sub-paragraph (i) above, on the

progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

- (iii) review with the Association, by July 31, 2007, or such later date as the Association shall request, the report referred to in subparagraph (ii) above, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

(b) The mid-term review referred to in (a) above shall, *inter alia*, cover the (i) Project scope, design and implementation arrangements, and institutional changes; (ii) procurement performance; (iii) performance of consultants; (iv) fund flows; and (v) lessons learned.

Guiding Principles For Sub-projects To Be Considered For Funding

4. In approving the Sub-projects, for the purpose of funding under the Project, the Recipient shall follow the Guiding Principles described below:

(a) The Sub-project is consistent with the Recipient's sector strategy and policy objectives as reflected in the I-PRSP and with the medium term budgetary framework, where applicable.

(b) The Sub-project supports institutional capacity building and enhances public sector efficiency in carrying out core functions, including playing a strategic role or improving service delivery and reflects a strong public sector rationale.

(c) The Sub-project helps better utilization of human or financial resources or existing capacities or better management of public assets.

(d) The Sub-project supports design and implementation of policy and institutional reforms in key areas.

(e) The Sub-project supports high impact of public investment on growth through preparation of programs and projects in key areas.

(f) The Sub-project promotes efficiency of functioning of the public sector through better communication and information sharing and record keeping.

(g) The Sub-project promotes better understanding of Government's development activities, priorities and plans and helps build support through better communication with other stakeholders.

(h) The Sub-project reflects strong felt needs, including analytical assessments, and consultations with relevant stakeholders or their involvement in project design or implementation.

(i) The Sub-project is backed by clearly specified objectives and results aimed to be achieved and a monitoring and evaluation framework with indicators that allow the tracking of progress towards achieving the intended results.

(j) The Sub-project is sustainable in terms of budgetary or manpower implications, with proposal supported by indications of recurrent cost implications and budgetary impact, where applicable, or in terms of realizing the benefits of investment in training.

5. Unless otherwise agreed between the Recipient and the Association, for the purpose of selecting Sub-projects, the procedures described in (a) through (c) below shall be observed:

(a) The technical assistance Sub-projects, and related technical assistance activities to be carried out shall consist of:

- (i) such Sub-projects, for which no-objection has been obtained by the Recipient from the Association; and
- (ii) such Sub-projects and related technical assistance activities that have been selected following the procedures of the Recipient set forth in (b) below.

(b) The approval procedures referred to above shall consist of such steps, satisfactory to the Association, including, *inter alia*, the following:

- (i) Sub-project seeking funding under the Project shall follow the Recipient's existing procedures for processing and approval of Sub-project TAPPs;
- (ii) ERD shall, upon receipt of funding requests, submit the draft TAPPs to the Association for its review; and

(iii) upon review of such draft TAPPs by the Association, and after incorporation by the implementing agencies of the Association's comments, if any, in such TAPPs for Sub-projects that the Association might agree to consider supporting, ERD shall forward such revised TAPPs to the Recipient's relevant authority for approval of financing under the Project.

(c) Upon receipt of such approved TAPPs, ERD shall submit them to the Association for its no-objection.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) “Eligible Categories” means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) “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 Grant allocated from time to time to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) “Authorized Allocation” means an amount equivalent to \$2,000,000 to be withdrawn from the Grant 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 \$1,000,000 until the aggregate amount of withdrawals from the Grant Account allocated to Categories (1) through (3) 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 5,000,000.
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 Recipient shall furnish to the Association a request or requests for a deposit or deposits 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Recipient shall have requested.

- (b) (i) For replenishment of the Special Account, the Recipient 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 Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient 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 Grant 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 Recipient out of the Special Account, the Recipient 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 Recipient directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and Section 2.02(a) of this Agreement;

- (b) if the Recipient 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 Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant 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 Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Recipient. 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 Recipient 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 Recipient 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 Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient 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 Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Results Monitoring Indicators

For Part A of the Project

Indicators shall be made available through the Sub-project proposals that will be submitted during the life of the project, which will be required to specify results indicators and a suggested mechanism for monitoring them.

For Part B of the Project

1. NBR develops a Strategic Development Plan, taking into account good practice and stakeholder views, including a new organizational structure that is moving towards functional lines.
2. NBR implements a phased shift towards a broadly functional organizational design, beginning with a hybrid approach (functional and tax-by-tax) in the transitional period, with the appointment of a new member for corporate strategy and human resources functions, so as to create an enabling institutional environment for better management, accountability and compliance.
3. Adoption of a new human resource strategy for NBR by 2006.
4. Adoption by the NBR of a comprehensive ICT strategy by end-2005, encompassing general principles and specific choices on platforms, connectivity, use of ICT to submit tax declarations and customs clearance documents and policies on contracting out maintenance of ICT infrastructure.
5. NBR develops the infrastructure for improved communication and information sharing within the organization by adopting an ICT strategy and MIS, based on an ICT-needs assessment and consistent with its improved functional design.
6. ICT function institutionalized and made sustainable through establishment of a budget line entry for ICT operation and maintenance for NBR and departments under its control.
7. Introduction of formalized ICT posts in NBR and departments under its control.
8. NBR strengthens customs valuation and assessment/clearance procedures, which aim to improve efficiency in customs administration, as measured by the reduction in

customs clearance/processing time and costs to importers and exporters, monitored on a monthly basis, for Chittagong and Dhaka.

9. Develop capacity to use PSI summary statistics and Asycuda-based data to undertake risk –assessment-based audit selection processes for customs inspection.

10. Curricula of the NBR’s training academies improved by focusing training on priority areas including accounting, auditing and enforcement, for the three major taxes, and improvement in training coverage, as measured by the increase in share of revenue administration staff trained in priority areas.

11. Number of courses conducted FY05, FY06, and FY07 by the two training academies, based on curriculum recommendations of the TA-supported assessment for curriculum development;

12. Number of officials receiving “in service” or post-initial training in priority areas, including auditing, monitored separately for the two taxation cadres.

13. Coverage and quality of fiscal statistics and research improved, as measured by the increase in the capacity of the Research and Statistics Wing to provide answers to policy-relevant questions, evaluate tax policy alternatives and provide tax intelligence.

For Part C of the Project

1. The legal and regulatory framework for improved financial reporting established, as measured by the enactment of a Financial Reporting Act (FRA), which includes provisions for International Accounting Standards/International Financial Reporting Standards (IAS/IFRS) and International Standards in Auditing (IAS), as well as provisions for the establishment of an independent regulatory body for accounting and auditing practices in the corporate sector, which will be responsible for their enforcement and monitoring.

2. Establishment of an independent regulatory body for accounting and auditing practices and its effective functioning, consistent with the provisions of the FRA.

3. Capacity of ICAB enhanced, as measured by the satisfactory implementation of a twinning arrangement with an international professional accountancy body and adequate coverage of IAS/IFRS and ISA in its curriculum.

4. Adoption of improved policies and practices related to examinations, training and licensing, leading to an increase in the proportion of successful examinees, and number of newly qualified chartered accountants graduating every year.

5. Teaching curricula for universities and colleges improved to include IAS/IFRS and ISA, and number of qualified teachers increased, as measured by the increase in the number of trainers that complete successfully both foreign and local program of training of trainers.

6. Improved educational and training programs in accounting and auditing, leading to an increase in college/university graduates trained in International Accounting Standards/International Financial Reporting Standards and International Standards on Auditing.

Part D of the Project

1. Improving information and communication technologies in government by making use of electronic communication and development of a National ICT strategy.

2. Establishment of a coherent framework for ICT by developing and adopting an e-Government strategy and road map for development of the ICT sector by December 2005.

3. Increase in share of Class I cadre civil servants provided ICT training by mid-term review and end of the Project period.

4. Increased use of ICT in the government, as measured by the share of Class I cadre civil servants using email and internet services at the end of the Project, compared with 2004.

5. Electronic methods to disseminate government information, internal notices and correspondence such as minutes of meetings, project reviews, and office orders, adopted.

6. Necessary legal and regulatory amendments made so that all e-documentation filings and processes are recognized as being legally valid.

Part E of the Project

1. Establishment and operationalization of a Strategic Communication Unit (SCU) in the Ministry of Information.

2. Number of Government officials trained in strategic communication.

3. Integration of the strategic communication unit and all relevant sites of ministries and agencies under one network for better coordination.

4. Establishing links between the SCU and central government offices, such as the Prime Minister's office, Ministry of Information, and Ministries of Finance and Planning, with communication demands on a day-to-day basis.

Part F of the Project

Effectiveness of central management of EMTAP by the World Bank Branch-1 of ERD, in line with agreed terms of reference, including, coordination and monitoring of Sub-project activities supported under the Project, promotion of their effective implementation, and promotion of sub-project proposals of high quality in priority areas to help meet the objectives of the Project.