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**CREDIT NUMBER 3961 BD**

# **Development Credit Agreement**

**(Second Development Support Credit)**

**between**

**PEOPLE'S REPUBLIC OF BANGLADESH**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated August 3, 2004**

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**CREDIT NUMBER 3961 BD**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated August 3, 2004, between PEOPLE'S REPUBLIC OF BANGLADESH (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated June 27, 2004, describing a program of actions, objectives and policies designed to accelerate poverty reduction through structural adjustment of the Borrower's economy (hereinafter called the Program), declaring the Borrower's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, (as amended through May 1, 2004) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

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

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

(b) Section 4.01 is modified to read:

“Except as the Borrower and the Association shall otherwise agree, withdrawals from the Credit Account shall be made in the currency of the deposit account specified in Section 2.02 of the Development Credit Agreement.”;

(c) Section 5.01 is modified to read:

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

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

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

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

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

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Anti-corruption Commission” means the anti-corruption commission to be established by the Borrower;

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

(c) “BADC” means Bangladesh Agriculture Development Corporation;

(d) “BCIC” means Bangladesh Chemical Industries Corporation;

- (e) “BPDB” means Bangladesh Power Development Board;
- (f) “BSFIC” means Bangladesh Sugar and Food Industries Corporation;
- (g) “DESA” means Dhaka Electricity Supply Authority;
- (h) “Energy Regulatory Commission” means the energy regulatory commission established by the Borrower;
- (i) “GTCL” means the Borrower’s Gas Transmission Company Limited;
- (j) “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, and the Rupali Bank; and
- (k) “SOE” means state-owned enterprises.

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred thirty six million eight hundred thousand Special Drawing Rights (SDR 136, 800,000).

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

(b) The Borrower shall open, prior to furnishing to the Association the first request for withdrawal from the Credit Account, and thereafter maintain in its central bank, a deposit account in dollars on terms and conditions satisfactory to the Association. All withdrawals from the Credit Account shall be deposited by the Association into the Deposit Account.

(c) The Borrower undertakes that the proceeds of the Credit shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Credit shall have been used to make a payment for an expenditure so excluded, the Borrower shall, promptly upon notice from the Association, (i) deposit into the Deposit

Account an amount equal to the amount of said payment, or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Credit Account for cancellation.

Section 2.03. The Closing Date shall be December 31, 2004, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing January 15, 2015, and ending July 15, 2044. Each installment to and including the installment payable on July 15, 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 the Association of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the abovementioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### **ARTICLE III**

#### **Particular Covenants**

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

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

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

Section 3.02. Upon the Association's request, the Borrower shall:

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

(b) furnish to the Association as soon as available, but in any case not later than four months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

#### **ARTICLE IV**

##### **Additional Event of Suspension**

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

#### **ARTICLE V**

##### **Termination**

Section 5.01. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.



## ARTICLE VI

### Representatives of the Borrower; Addresses

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

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

For the Borrower:

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

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

For the Association:

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

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

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

ASSOCIATION

INTERNATIONAL

DEVELOPMENT

By /s/ David Hughart

Acting Country Director  
Bangladesh

## SCHEDULE 1

### Excluded Expenditures

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

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

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

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

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Borrower or international agreements to which the Borrower is a party, and any other goods designated as environmentally hazardous by agreement between the Borrower and the Association);

6. expenditures (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation.

## **SCHEDULE 2**

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

#### Financial Sector/NCBs

1. The Borrower has appointed a Financial Adviser to bring Rupali Bank to the point of sale by the end-2004.
2. The Borrower has put on bid a contract for management advisers for Sonali Bank, and has taken all necessary measures to put out for new tender a contract for Janata Bank, by no later than December 31, 2004.
3. The Borrower has: (i) at the Cabinet level, approved the amendments to the law relating to prudential regulations on loan classification; (ii) through its Ministry of Finance, agreed to submit the amendments referred to in (i) above to the Parliament at the earliest opportunity; and (iii) through the Governor of Bangladesh Bank, made commitments to issue all necessary circulars to align loan classification with international practice in phases agreed with the Association upon completion of a study by December 31, 2004; the first such circular to initiate implementation to be issued by March 31, 2005.

#### SOE Reform

4. The Borrower has: (i) transferred to the private sector 13 SOEs and issued tender notices for the sale of five more; (ii) adopted a policy of partial closure and shutting down operations in the face of union opposition to outright closure; and (iii) five firms have been downsized and 10,000 workers retired or separated.
5. The Borrower has completed preparatory work to restructure and downsize BADC, BCIC, BSFIC.

#### Energy Sector

6. The Borrower has prepared the terms of reference for advisers to complete the restructuring of the debts and arrears of the power sector and adopt a financial action plan to prevent the growth of new arrears and to begin publishing key performance indicators of sector enterprises.
7. The Borrower has agreed: (i) to reduce its payables to BPDB and DESA to not more than three months of accounts payable by July 7, 2004; (ii) to set up a joint quarterly monitoring system to monitor the payables of all the ministries to electricity utilities to ensure that they remain at no more than three months of accounts; and (iii) that BPDB and DESA shall reduce receivables from autonomous bodies and private

consumers to not more than six months of accounts receivables by December 2004, and not more than three months of accounts receivables by June 2005.

8. The Borrower: (i) has gazetted an increase in the prices of gas by 3.5 percent, to be effective from July 1, 2004, and has agreed to an additional 2.27 percent increase to be effective from January 1, 2005; and (ii) has agreed that thereafter prices will be adjusted monthly in line with the formula agreed with the Association, so that if the estimated adjustment is greater than 10 percent prices will be adjusted immediately, otherwise, they will be adjusted on April 1 and October 1 each year in line with the formula.

9. The Borrower has completed the corporatization of two power distribution companies in the West and North-West Zones, which have been registered as companies.

10. GTCL has taken over all gas transmission assets of all other entities of Petrobangla.

11. The Borrower has: (i) appointed two commissioners to the Energy Regulatory Commission, which has begun operating under an acting Chairman; and (ii) launched the process of selecting a chairman for the Energy Regulatory Commission.

#### Broad-based Governance

12. The Borrower has taken all necessary measures to appoint the members and Chairman for the independent Anti-Corruption Commission and to make the commission operational by no later than December 31, 2004.

13. The Borrower has introduced a broad range of measures, e.g. in banking, SOE closures, tax administration, procurement reform and measures to track public spending leakages, which will reduce the scope for corruption.

14. The Borrower has adopted new procurement regulations and is finalizing standard bidding documents to promote compliance, and has agreed to present to Parliament a procurement law, including provisions for concessions contracting/BOT before June 2005.

15. The Borrower has established a Public Accounts Committee.

16. The Borrower has identified and initiated actions to strengthen the independence of the office of the Comptroller and Auditor General, in form and substance satisfactory to the Association.

Public Administration

17. The Borrower has announced and initiated a new personnel management system including extended merit-based promotions, transfers within clusters of ministries, revised compensation and enhanced training.

18. The Borrower has started the implementation of a program for outsourcing support services to the private sector.