

CONFORMED COPY

CREDIT NUMBER 2922 BD

Development Credit Agreement

(Poverty Alleviation Micro-Finance Project)

between

PEOPLE'S REPUBLIC OF BANGLADESH

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 2, 1996

CREDIT NUMBER 2922 BD

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 2, 1996, between PEOPLE'S REPUBLIC OF BANGLADESH (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS 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; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

- (a) The last sentence of Section 3.02 is deleted.

(b) the second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations".

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

(a) "Bangladesh Bank" means the Bangladesh Bank established by the Borrower's Bangladesh Bank Order, 1972 (President's Order No. 127 of 1972) for the purpose of carrying out the business of central banking;

(b) "Beneficiary" means a person having a land holding or annual income below a threshold established by PKSF (as hereinafter defined) under its Statement of Policy (as hereinafter defined) and to whom a PO (as hereinafter defined) has made or proposes to make a Micro-credit (as hereinafter defined);

(c) "Eligible Activity" means an income generating self-employment activity as specified by PKSF to be carried out by a Beneficiary utilizing the proceeds of a Micro-credit;

(d) "Fiscal Year" means the Fiscal Year of the Borrower beginning on July 1 of a calendar year and ending on June 30 of the following calendar year;

(e) "Memorandum and Articles of Association" means the Memorandum and Articles of Association of PKSF as amended to the date of this Agreement;

(f) "MFI" means a Micro-Finance Institution established in accordance with the laws of the Borrower for, inter alia, carrying out Micro-credit programs;

(g) "Micro-credit" means a loan made or proposed to be made by a PO to a Beneficiary for an Eligible Activity;

(h) "PKSF" means the Palli Karma Sahayak Foundation, an apex financing institution registered as a private non-profit organization under the Borrower's Companies Act, 1994, as amended;

(i) "Sub-loan Agreement" means an agreement to be entered into between PKSF and a PO providing for a Sub-loan (as hereinafter defined);

(j) "PO" means an MFI which is a partner organization of PKSF and to which PKSF has made or proposes to make a sub-loan;

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

(l) "Statement of Policy" means the statement of lending policy as adopted and approved by the Governing Body of PKSF as amended to the date of this Agreement;

(m) "Sub-loan" means a loan made or proposed to be made by PKSF out of the proceeds of the Credit to a PO for financing a Micro-credit;

(n) "Subsidiary Loan" means a loan made or proposed to be made by the Borrower out of the proceeds of the Credit to PKSF for financing a Sub-loan pursuant to the provisions of Sections 3.01 (b) (i) of this Agreement;

(o) "Subsidiary Loan Agreement" means the agreement dated July 24, 1996, entered into between the Borrower and PKSF, satisfactory to the Association, for purposes of carrying out Parts A and B.1 of the Project; and

(p) "Taka" and "Tk" mean 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 this Agreement, an amount in various currencies equivalent to seventy two million seven hundred thousand Special Drawing Rights (SDR 72,700,000).

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, to be paid) through PKSF to a PO on account of withdrawals made by a Beneficiary under a Micro-credit to meet the reasonable cost of goods and services required for an Eligible Activity 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 Part B of the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in Bangladesh Bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 6 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2000, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

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

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment 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 15 and December 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each June 15 and December 15 commencing December 15, 2006 and ending June 15, 2036. Each installment to and including the installment payable on June 15, 2016 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time,

provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

Section 2.09. (a) For purposes of Parts A and B.1 of the Project, the Managing Director of PKSF, or such person or persons as he shall designate in writing, is designated as representative of the Borrower for the purpose of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions; and

(b) For purposes of Part B.2 of the Project, the Governor of Bangladesh Bank, or such person or persons as he shall designate in writing, is designated as representative of the Borrower for the purpose of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions.

### ARTICLE III

#### Description of the Project; Use of Proceeds of the Credit

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, shall carry out the Project or cause the Project to be carried out with due diligence and efficiency and in conformity with appropriate administrative, financial and micro-credit practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) The Borrower shall: (i) onlend a portion of the proceeds of the Credit to PKSF for purposes of providing Sub-loans to POs under Sub-loan Agreements in order to finance Micro-credits under Part A of the Project; and (ii) provide a portion of the proceeds of the Credit as a grant to PKSF for implementing a program of institutional development of PKSF and POs under Part B.1 of the Project, all in accordance with the provisions of the Subsidiary Loan Agreement containing the procedures, terms and conditions and implementation arrangements approved by the Association which shall, except as the Association shall otherwise agree, continue to include those set forth in Schedule 5 to this Agreement.

(c) Without limitation upon the provisions of paragraphs (a) and (b) of this Section, and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out or cause the Project to be carried out in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(d) The Borrower shall: (i) exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof; and (ii) ensure that, unless the Association shall otherwise agree, Sub-loans and Micro-credits will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 6 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 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 sustainability of the Project; and

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

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to monitor and record the progress of the Project and to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, 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

(iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall 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) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;

(ii) retain or cause to be retained, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

#### ARTICLE V

##### Remedies of the Association

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

(a) The Subsidiary Loan Agreement or the Sub-loan Agreement shall have been amended, suspended, abrogated, repealed or waived without the prior approval of the Association.

(b) The Memorandum and Articles of Association of PKSF shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the operations or financial condition of PKSF or its ability to carry out the Project or to perform any of its obligations under the Subsidiary Loan Agreement.

(c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of PKSF or for the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified, namely, that the events specified in Section 5.01 of this Agreement shall occur.

#### ARTICLE VI

##### Effective Date; Termination

Section 6.01. The following is specified as an additional matter, 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, namely, that the Subsidiary Loan Agreement has been duly authorized or ratified by, and is legally binding upon the Borrower and PKSF in accordance with its terms.

Section 6.02. 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 VII

##### Representatives of the Borrower; Addresses

Section 7.01. The Secretary or the Additional Secretary or any Joint Secretary, Deputy Secretary or Assistant Secretary of the Economic Relations Division of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Economic Relations Division  
Ministry of Finance  
Government of the People's  
Republic of Bangladesh  
Dhaka, Bangladesh

Cable address:

BAHIRSAMPAD  
Dhaka

Telex:

642226 SETU BJ

Facsimile:

8802813088

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

Facsimile:

2024776391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above

written.

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ Shah Kibria

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ D. Joseph Wood

Regional Vice President  
South Asia

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Micro-credits under Part A of the Project	69,250,000	92% of amounts disbursed
(2) Civil works under Part B.1 of the Project	1,520,000	75%
(3) Goods under Part B.1 of the Project	550,000	100% of foreign expenditures, 100% of local expenditures (ex- factory cost) and 80% of local ex- penditures for other items procured locally
(4) Consultants' services and training under:		100%
(i) Part B.1 of the Project	1,280,000	
(ii) Part B.2 of the Project	100,000	
TOTAL	72,700,000	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement; and (b) in respect of a Micro-credit unless the Micro-credit has been made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 5 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) Micro-credits under Part A of the Project; (ii) civil works under contracts costing less than \$100,000 equivalent; (iii) goods under contracts for Part B.1 of the Project costing less than \$75,000 equivalent; and (iv) services under contracts costing less than \$100,000 equivalent for employment of consulting firms and \$50,000 equivalent for employment of individual consultants, 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:

(i) to expand outreach of on-going successful micro-finance programs and improve their operations; (ii) to enhance the financial sustainability of PKSF and Micro-Finance Institutions; (iii) to enhance the role of PKSF for lending and mobilizing increased levels of financial support for micro-finance programs; (iv) to assist in the institutional strengthening of PKSF and Micro-Finance Institutions; and (v) to strengthen linkages between Micro-Finance Institutions and the formal financial sector.

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: Micro-credit

The financing through PKSF and POs of Micro-credits to Beneficiaries.

Part B: Technical Assistance

1. Carrying out a program of institutional development of PKSF and POs in the areas, inter alia, of auditing and financial standards, financial sustainability, staff development, impact evaluation and computerization through the construction of an office building for PKSF and the provision of equipment, training and consultants' services.

2. Carrying out of studies and training for:

(a) establishing an appropriate regulatory framework and institutions for regulating MFIs engaged in deposit taking/lending; and

(b) developing financial, institutional and regulatory measures to assist MFIs in becoming formal financial institutions, and strengthening the linkage of MFIs with the formal financial sector.

\* \* \*

The Project is expected to be completed by June 30, 2000.

## SCHEDULE 3

### Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January 1996 (the Guidelines) and the following provisions of this Section, as applicable.



Part B: Procurement Procedures

1. National Competitive Bidding

Except as provided in paragraph 2 of this Part, goods and all civil works for Part B.1 of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods for Part B.1 of the Project estimated to cost less than \$20,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement by Beneficiaries

Goods and works to be financed under Parts A of the Project shall be procured under local private sector or commercial practices in accordance with the provisions of paragraph 3.12 of the Guidelines.

Part C: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project 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. 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: (a) each contract for civil works under Part B.1 of the Project estimated to cost the equivalent of \$100,000 or more, and (b) each contract for goods under Part B.1 of the Project estimated to cost the equivalent of \$75,000 or more, 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 procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

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

## Implementation Program

1. The Borrower shall submit to the Association all information, statements and reports promptly after receiving them from PKSF pursuant to the provisions of the Subsidiary Loan Agreement.

2. The Borrower shall cause Bangladesh Bank to: (a) carry out the studies under Part B.2 of the Project under terms of reference satisfactory to the Association; (b) by December 31, 1997 submit to the Association for review the completed studies together with a time-bound plan of action for implementing the recommendations of such study; and (c) taking into account the Association's comments thereon, implement such plan of action in a manner satisfactory to the Association.

3. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out 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, by August 31, 1998, a report integrating the results of the monitoring and evaluation activities performed pursuant to subparagraph (a) 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;

(c) review with the Association, by October 31, 1998, or such later date as the Association shall request, the report referred to in subparagraph (b) 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; and

(d) cause PKSF, at the request of the Association, to exchange views with the Association with regard to the performance of its obligations under the Subsidiary Loan Agreement and other matters relating to the purposes of the Credit.

### SCHEDULE 5

#### Procedures, Terms and Conditions and Implementation Arrangements Under the Subsidiary Loan Agreement for Providing Sub-loans in order to Finance Micro-credits

Part A: Subsidiary Loan Agreement

1. Except as the Association shall otherwise agree, the Subsidiary Loan Agreement shall, inter alia, provide that:

(a) The Borrower shall onlend a portion of the proceeds of the Credit as a Subsidiary Loan to PKSF for purposes of carrying out Part A of the Project. Such Subsidiary Loan shall be denominated in Takas. Interest shall be payable on the principal amount of the Subsidiary Loan withdrawn and outstanding from time to time at a simple interest rate of 1% per annum. The amortization period shall be 20 years with a grace period of 5 years for each disbursement from the proceeds of the Credit onlent to PKSF as a Subsidiary Loan. Prepayment shall be permitted at any time without penalty. The foreign exchange risk shall be borne by the Borrower.

(b) The Borrower shall provide a portion of the proceeds of the credit to PKSF as a grant for purposes of carrying out Part B.1 of the Project. Toward that end PKSF shall undertake a program of institutional development aimed at enhancing financial sustainability, strengthening accountability, improving staff skills and establishing an impact evaluation program.

(c) PKSF declares its commitment to the objectives of the Project and to maintaining its financial viability, and shall conduct its operations and affairs in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with its Memorandum and Articles of Association and its Statement of Policy.

(d) PKSF shall establish and maintain satisfactory procedures and operational polices for supervision and monitoring of Sub-loans and Micro-credits in order to

ensure the achievement of the objectives of the Project, and shall maintain a loan recovery rate of 98% on a quarterly basis. Where, however, such recovery rate is not achieved in exceptional situations of natural calamities or emergencies, PKSf shall take such measures, satisfactory to the Association and the Borrower, to promptly restore such recovery rate.

(e) PKSf shall ensure that the proceeds of the Subsidiary Loan shall be utilized to make Sub-loans to POs under Sub-loan Agreements for financing Micro-credits in accordance with the procedures and on the terms and conditions set forth or referred to in Part B of this Schedule.

(f) PKSf shall exercise its rights under the Subsidiary Loan Agreement and each Sub-loan Agreement in such manner as to:

- (i) protect the interests of the Borrower and PKSf;
- (ii) comply with its obligations under the Subsidiary Loan Agreement and such Sub-loan Agreement; and
- (iii) achieve the purposes of Part A of the Project.

(g) PKSf shall duly perform all its obligations under the Subsidiary Loan Agreement and each Sub-loan Agreement. Except as the Borrower shall otherwise agree, PKSf shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Subsidiary Loan Agreement or any Sub-loan Agreement or any provision of any such Agreement.

(h) PKSf shall, at the request of the Borrower, exchange views with the Association with regard to the performance of its obligations under the Subsidiary Loan Agreement and other matters relating to the purposes of the Credit.

(i) PKSf shall promptly inform the Borrower of any condition which interferes or threatens to interfere with the accomplishment of the purposes of the Credit or the performance by the PKSf of its obligations under the Subsidiary Loan Agreement. The Borrower and PKSf shall consult and take such measures as may be necessary in order to overcome such condition.

(j) PKSf shall maintain procedures and records adequate to monitor and record the progress of Parts A and B.1 of the Project and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of PKSf. PKSf shall have such records for each Fiscal Year audited, in accordance with appropriate auditing principles consistently applied by independent auditors acceptable to the Borrower. PKSf shall furnish to the Borrower, as soon as available, but in any case not later than six months after the end of each such Fiscal Year, a certified copy of the report of such audit by said auditors, of such scope and in such detail, including such other information on such records and audit thereof as the Borrower shall from time to time reasonably request. Such report shall include the auditor's opinions on, inter alia, quality of PKSf's general accounting practices, adequacy of MIS and internal audit/control systems, adequacy of loan classification and provisioning policies, accuracy of loan recovery rates and overdue, and accuracy of the periodic reports submitted pursuant to paragraph (m) of this Part.

(k) PKSf shall provide to the Borrower all information, statements and reports in respect of the Subsidiary Loan, Sub-loans and Micro-credits as the Borrower shall reasonably request.

(l) PKSf shall provide to the Borrower: (i) quarterly and annual reports on the progress of carrying out Parts A and B.1 of the Project and include in these reports, inter alia, information on agreed project performance indicators; and (ii) prior to the start of each Fiscal Year, its approved business plan outlining detailed financial, operational, and institutional plans for the following Fiscal Year and broad goals in these areas for the remaining Fiscal Years until the completion of the Project.

(m) PKSf shall provide to the Borrower periodic reports indicating the aggregate amount of financing provided to POs during such period based on the reports provided by POs pursuant to paragraph 2 (k) of Part B of this Schedule, the sources of such financing and the amount to be financed as Sub-loans from the proceeds of the Subsidiary Loan.

(n) The Borrower shall provide to PKSf a loan equivalent to \$10,000,000 from

its own resources over a period of two years in two equal installments at the beginning of each Fiscal Year commencing with Fiscal Year 1996-97. Such loan shall be denominated in Takas. Interest shall be payable on the principal amount of the loan withdrawn and outstanding from time to time at a simple interest rate of 1%. The amortization period shall be 20 years with a grace period of 5 years for each loan installment. Prepayment shall be permitted at any time without penalty. The foreign exchange risk shall be borne by the Borrower.

(o) The Borrower shall suspend or terminate the right of PKSf to the use of the proceeds of the Subsidiary Loan upon:

- (i) failure by PKSf to perform any of its obligations under the Subsidiary Loan Agreement, or upon notice by the Association to the Borrower that it intends to exercise any of its remedies under Sections 6.02 and 7.01 of the General Conditions or Article V of this Agreement; or
- (ii) upon notice by PKSf that it intends to terminate the Subsidiary Loan Agreement, or upon the actual termination of the Subsidiary Loan Agreement, whichever occurs first.

2. Each request by the Borrower or on behalf of the Borrower for authorization to make withdrawals from the Credit Account for onlending the proceeds thereof to PKSf as a Subsidiary Loan shall be based on the reports required to be provided by PKSf and POs pursuant to the provisions of Part A.1 (m) and Part B.2 (k) respectively, of this Schedule, and contain a summary description of such reports and such other information as the Association shall request.

Part B: Sub-loans

1. PKSf shall utilize the proceeds of the Subsidiary Loan to make Sub-loans to POs that meet and maintain the following eligibility criteria:

(a) Small/Medium PO:

- (i) the PO has a demonstrated track record of running a successful Micro-credit program, or, in the review of PKSf, demonstrates the potential to do so after technical assistance and capacity building;
- (ii) the minimum loan recovery rate is 95%;
- (iii) the PO possesses adequate manpower for intensive supervision, and has a good management committee; and
- (iv) the PO is using a standard double entry accounting system, or is willing to adopt it with PKSf's assistance.

(b) Large PO:

- (i) the PO is operating a successful Micro-credit program for a minimum of 5 years;
- (ii) it has at least 100,000 borrowers with a strong potential for expansion;
- (iii) it has at least Tk. 100 million of equity (including foreign grants, surplus etc.) of its own on the program;
- (iv) the debt-equity ratio does not exceed 2.5:1;
- (v) it maintains a strong and transparent accounting, MIS and internal audit system;
- (vi) it has its accounts audited by a reputable external auditor on an annual basis; and
- (vii) the minimum loan recovery rate is 95%.

2. PKSf shall enter into a Sub-loan Agreement with each PO for making Sub-loans and such Agreement shall, except as the Association shall otherwise agree, provide, inter alia, that:

(a) PKSF shall make Sub-loans to the PO for purposes of financing Micro-credits under Part A of the Project. Such Sub-loans shall be denominated in Takas. Service charge payable on the principal amount of the Sub-loan withdrawn and outstanding from time to time and the period of amortization shall at a minimum be as follows:

- (i) Small/Medium POs: maturity of three years and differentiated service charges as follows: (A) 3% service charge for POs when cumulative loan sanction from PKSF does not exceed Tk. 5 million; (B) 4% service charge for POs when cumulative loan sanction from PKSF exceeds Tk. 5 million but does not exceed Tk. 75 million; and (C) 4.5% service charge for POs when cumulative loan sanction from PKSF exceeds Tk. 75 million; and
- (ii) Large POs : the service charge shall be 5% and PKSF shall decide on the maturity and grace period, based on a review of the POs ability to repay from its surplus and reflows.

(b) The PO declares its commitment to the objectives of the Project and shall conduct its operations and affairs in accordance with sound financial standards and practices, with qualified and experienced management and in accordance with its Charter.

(c) The PO shall establish and maintain satisfactory procedures and operational polices for supervision and monitoring of Micro-credits so as to ensure the achievement of the objectives of the Project.

(d) The PO shall ensure that the proceeds of Sub-loans shall be utilized to finance Micro-credits in accordance with the procedures and on the terms and conditions set forth or referred to in Part C of this Schedule.

(e) The PO shall exercise its rights under each Sub-loan Agreement in such manner as to:

- (i) protect the interests of the Borrower, PKSF and the PO;
- (ii) comply with its obligations under the Sub-loan Agreement; and
- (iii) achieve the purposes of Part A of the Project.

(f) The PO shall duly perform all its obligations under the Sub-loan Agreement. Except as PKSF shall otherwise agree, PO shall not take or concur in any action which would have the effect of assigning, amending, abrogating or waiving the Sub-loan Agreement or any provision thereof.

(g) The PO shall, at the request of PKSF, exchange views with PKSF with regard to the performance of its obligations under the Sub-loan Agreement and other matters relating to the purposes of the Micro-credit.

(h) The PO shall promptly inform PKSF of any condition which interferes or threatens to interfere with the accomplishment of the purposes of the Credit or the performance by the PO of its obligations under the Sub-loan Agreement.

(i) The PO shall maintain procedures and records adequate to monitor and record the progress of Part A of the Project and to reflect in accordance with consistently maintained sound accounting practices the operations and financial condition of the PO.

(j) The PO shall provide to PKSF all records, documents and information in respect of Sub-loans, Micro-credits and other activities as PKSF shall request.

(k) The PO shall provide to PKSF at regular intervals specified by PKSF reports indicating the aggregate amount of financing provided under its Micro-credit program during such interval, the sources of such financing, and the amount to be financed as Micro-credits from the proceeds of Sub-loans.

(l) The POs shall provide to PKSF their medium term business plan within the framework of which Sub-loans shall be made.

(m) PKSF shall suspend or terminate the right of the PO to the use of the

proceeds of Sub-loans upon:

- (i) failure by such PO to perform its obligations under the Sub-loan Agreement, or upon notice by the Association to the Borrower that it intends to exercise any of its remedies under Sections 6.02 and 7.01 of the General Conditions or Article V of the Development Credit Agreement; or
- (ii) upon notice by the PO that it intends to terminate the Sub-loan Agreement, or upon the actual termination of the Sub-loan Agreement, whichever occurs first.

Part C: Micro-credit

1. The PO shall utilize the proceeds of Sub-loans to finance Micro-credits to Beneficiaries for Eligible Activities.
2. Micro-credits shall be denominated in Takas. The interest rate on Micro-credits and their maturity, as well as other terms and conditions and procedures shall be determined by the PO in accordance with its usual practices.
3. The PO shall ensure that Beneficiaries purchase goods and services to be financed out of the proceeds of Micro-credits in accordance with the provisions of Part B.3 of Section I of Schedule 3 to this Agreement.
4. The PO shall ensure that Beneficiaries provide all relevant records, documents and information in respect of Micro-credits and Eligible Activities as the PO shall reasonably request.

#### SCHEDULE 6

##### Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2), (3) and (4) (i) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$8,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$3,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 20,000,000.

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

(b) Each payment (including a payment under a letter of credit) for an eligible expenditure in an amount equal to or less than the equivalent of \$250,000 shall be made exclusively out of the Special Account.

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 Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special

Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories 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.

