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**CREDIT NUMBER 4312-BD**

# **Financing Agreement**

**(Fourth Development Support Credit)**

**between**

**PEOPLE'S REPUBLIC OF BANGLADESH**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated June 2, 2007**

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**CREDIT NUMBER 4312-BD**

**FINANCING AGREEMENT**

AGREEMENT dated June 2, 2007, entered into between PEOPLE'S REPUBLIC OF BANGLADESH ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I (A) of Schedule 1 to this Agreement, and (b) the Recipient's maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

**ARTICLE I – GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II – FINANCING**

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to one hundred thirty-two million two hundred thousand special drawing rights (SDR 132,200,000).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are January 15 and July 15 in each year.

- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 2 to this Agreement.
- 2.07. The Payment Currency is Dollars.

### **ARTICLE III – PROGRAM**

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
  - (a) the Recipient 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;
  - (b) prior to each such exchange of views, the Recipient 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; and
  - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing 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 Section I of Schedule 1 to this Agreement.

### **ARTICLE IV – REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

### **ARTICLE V – EFFECTIVENESS**

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

### **ARTICLE VI – REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is 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.

6.02. The Recipient's Address is:

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

Facsimile:

88-02-8113088

6.03. The Association's Address is:

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

Cable address:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

248423(MCI) or  
64145(MCI)

1-202-477-6391

AGREED at Dhaka, Bangladesh, as of the day and year first above written.

PEOPLE'S REPUBLIC OF BANGLADESH

By /s/ Md. Aminul Islam Bhuiyan

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Xian Zhu

Authorized Representative

## SCHEDULE 1

### Program Actions; Availability of Financing Proceeds

#### Section I. Actions under the Program

##### A. Actions Taken Under the Program

1. The Recipient has deepened trade liberalization by reducing the average nominal rate of protection by 2.2 percentage points, out of which 1.7 percentage points was achieved by phasing out supplementary duties and 0.5 percentage points by reducing customs duties.
2. The Recipient has strengthened the effectiveness and accountability of the NBR by moving it toward a more functional organization structure, consistent with the NBR Strategic Development Plan, and, toward that, introduced human resources, information and communication technology, and audit functions at the NBR Board level, with follow-up plans to create three new Board positions for the three new functions.
3. The Recipient has advertised the managing director positions for Janata and Sonali banks, and has committed to doing the same for Agrani bank by June 30, 2007, based on specific terms of reference that include performance indicators, it being understood that said managing directors shall be held accountable for meeting said indicators.
4. The Recipient has made significant progress in implementing an NCB restructuring action plan, in particular with its Council of Advisers taking the legal decision to corporatize the Agrani, Janata, and Sonali banks and the commitment by the Recipient to complete the corporatization process by July 2007.
5. The Recipient has developed and initiated implementation of a public financial management improvement plan, satisfactory to the Association, with measures and timetable to address gaps, including those identified in the recently developed public financial management indicators.
6. The Recipient has: (i) established a complaints mechanism for procurement, including independent review panels, meeting the standards stipulated in the procurement regulations; and (ii) published, on a pilot basis, quarterly procurement management information systems results on CPTU's website with performance indicators for key implementing agencies in the infrastructure and power sectors.

7. The Recipient has taken appropriate steps, acceptable to the Association, to strengthen the Anti-Corruption Commission and its management.
8. The Recipient has: (i) adopted a least-cost generation development plan for generation investments in the power sector and ensuring that all proposed generation investments, extant and in the future, are consistent with said development plan; and (ii) selected expert consultants to help formulate a generation financing plan including, *inter alia*, the proportion of generation capacity and the specific generation investments to be procured under private and public financing and ownership, respectively.
9. The Recipient has appointed a reputable international transaction adviser to assist in the development of a fair, transparent and competitive procurement process for procuring a new, baseload, gas-fired combined-cycle power plant in the power sector, consistent with the Recipient's regulations and procurement policies.
10. The Recipient has taken all measures necessary to ensure that the process of procuring power under its Small Power Plant Program is transparent and is based on competitive procedures, including the issue of model security packages and licensing agreements, and selection criteria based on technical competence, financial capabilities and tariffs offered by competing bidders, with relative weights consistent with international good practices.
11. The Recipient has: (i) adopted, in principle, a power sector financial restructuring plan (covering specific actions on asset re-valuation, debt restructuring, pension liabilities, tariffs, arrears), and has initiated implementation of the plan by adjusting power tariffs and collecting payment arrears to power utilities, and has further agreed to start restructuring the balance sheets of all power utilities from July 2007; (ii) reduced Bangladesh Power Development Board's average payment arrears to Independent Power Producers to less than forty five (45) days; and (iii) submitted to the Council of Advisers a financing plan, including a combination of budgetary support and tariff increases, to put the sector on financial recovery path.

## **Section II. Availability of Financing Proceeds**

- A. **General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. **Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

<b>Allocations</b>	<b>Amount of the Financing Allocated (Expressed in SDR)</b>
Single Tranche	132,200,000
<b>TOTAL AMOUNT</b>	<b>132,200,000</b>

- C. **Deposits of Financing Amounts.** Except as the Association may otherwise agree:
1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
  2. the Recipient shall ensure that upon each deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.
- D. **Excluded Expenditures.** The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.
- E. **Closing Date.** The Closing Date is December 31, 2007.

**SCHEDULE 2**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each January 15 and July 15:	
commencing July 15, 2017, to and including January 15, 2027	1%
commencing July 15, 2027, to and including January 15, 2047	2%

\* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03(b) of the General Conditions.

## APPENDIX

### Section I. Definitions

1. “Anti-corruption Commission” or “ACC” means the anti-corruption commission established by the Borrower under the Anti-Corruption Commission Act, 2004.
2. “Excluded Expenditure” means any expenditure:
  - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
  - (b) for goods included in the following groups or sub-groups 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 Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
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)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
  - (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party, and any other goods designated as environmentally hazardous by agreement between the Recipient and the Association;
  - (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
  - (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
3. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
  4. “CPTU” means the Recipient’s Central Procurement Technical Unit.
  5. “NBR” means the Recipient’s National Board of Revenue.
  6. “NCBs” means the Recipient’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, Agrani Bank, Janata Bank, Rupali Bank and Sonali Bank.
  7. “SOE” means the Recipient’s state-owned enterprises.
  8. “Program” means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated April 11, 2007 from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.

9. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

## **Section II. Modifications to the General Conditions**

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six (6) months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under

the Legal Agreements and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:
  - (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”
  - (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.
  - (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

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