Project Agreement

(Enterprise Growth and Bank Modernization Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

BANGLADESH BANK

Dated June 23, 2004
PROJECT AGREEMENT

AGREEMENT, dated June 23, 2004, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and BANGLADESH BANK (Bangladesh Bank).

WHEREAS (A) by the Development Credit Agreement of even date herewith between People’s Republic of Bangladesh (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred seventy two million three hundred thousand Special Drawing Rights (SDR 172,300,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that Bangladesh Bank agree to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by an Administrative Agreement to be entered into between the Borrower and Bangladesh Bank, a portion of the proceeds of the credit provided for under the Development Credit Agreement will be made available to Bangladesh Bank on the terms and conditions set forth in said Administrative Agreement; and

WHEREAS (C) Bangladesh Bank, in consideration of the Association’s entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I
Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II
Execution of the Project

Section 2.01. (a) Bangladesh Bank declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out Part A of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial and banking practices, and shall
provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for Part A of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association shall otherwise agree, Bangladesh Bank shall carry out Part A of the Project in accordance with the Implementation Program set forth in Schedule 1 to this Agreement.

Section 2.02. In the carrying out of Part A of the Project, Bangladesh Bank shall enter into a participation agreement (Participation Agreement) with each PFI to provide a portion of the Credit allocated to Part A of the Project. For such purpose, Bangladesh Bank shall use a model Participation Agreement whose terms and conditions shall have been approved by the Association.

Section 2.03. (a) Bangladesh Bank undertakes that Subloans will be made in accordance with the procedures and on the terms and conditions set forth or referred to in Schedule 1 to this Agreement.

(b) Bangladesh Bank shall exercise its rights in relation to each Investment Project in such manner as to: (i) protect the interests of the Association and of Bangladesh Bank; (ii) comply with its obligations under this Agreement and the Administrative Agreement; and (iii) achieve the purposes of Part A of the Project.

Section 2.04. Except as the Association shall otherwise agree, procurement of the goods, works and consultants’ services required for Part A of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to the Development Credit Agreement.

Section 2.05. (a) Bangladesh Bank shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, Bangladesh Bank shall:

(i) 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 Association and Bangladesh Bank, a plan for the future operation of Part A of the Project; and

(ii) afford the Association a reasonable opportunity to exchange views with Bangladesh Bank on said plan.
Section 2.06. Bangladesh Bank shall duly perform all its obligations under the Administrative Agreement. Except as the Association shall otherwise agree, Bangladesh Bank shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Administrative Agreement or any provision thereof.

Section 2.07. (a) Bangladesh Bank shall, at the request of the Association, exchange views with the Association with regard to the progress of Part A of the Project, the performance of its obligations under this Agreement and under the Administrative Agreement, and other matters relating to the purposes of the Credit.

(b) Bangladesh Bank shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of Part A of the Project, the accomplishment of the purposes of the Credit, or the performance by Bangladesh Bank of its obligations under this Agreement and under the Administrative Agreement.

Section 2.08. Bangladesh Bank shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the performance indicators set forth in Schedule 6 to the Development Credit Agreement, the carrying out of Part A of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2006, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) 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 Part A of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by February 28, 2007, or such later date as the Association shall request, the report referred to in paragraph (b) above, and, thereafter, take all measures required to ensure the efficient completion of Part A 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.

ARTICLE III

Management and Operations of Bangladesh Bank

Section 3.01. Bangladesh Bank shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and banking practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.
ARTICLE IV

Financial Covenants

Section 4.01. (a) Bangladesh Bank shall establish and maintain a financial management system, including records and accounts, and prepare financial statements, all in accordance with accounting standards acceptable to the Association, consistently applied, adequate to reflect its operations and resources and expenditures related to Part A of the Project.

(b) Bangladesh Bank shall:

(i) have its records, accounts and financial statements referred to in paragraph (a) above, for each fiscal year audited, in accordance with auditing standards acceptable to the Association, 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 six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section, for such year as so audited, and (B) an opinion on such statements and 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 such records, accounts and financial statements, and the audit thereof, as the Association may from time to time reasonably request.

Section 4.02. (a) Bangladesh Bank shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

(i) sets forth sources and uses of funds for Part A of the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and previously forecast uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and previously forecast implementation targets; and
(iii) sets forth the status of procurement under Part A of 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 Part A of 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

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of Bangladesh Bank thereunder shall terminate on the earlier of the following two dates:

(i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or

(ii) the date twenty years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a)(ii) of this Section, the Association shall promptly notify Bangladesh Bank of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party’s address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:
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) 477-6391
Washington, D.C. 64145 (MCI)

For Bangladesh Bank:

Motijheel Commercial Area
Dhaka - 1000
People’s Republic of Bangladesh

Telex: Facsimile:
632226 or (880-2) 956-6212
632227
BANK BJ

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of Bangladesh Bank, or by Bangladesh Bank on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by its Governor or such other person or persons as the Governor shall designate in writing, and Bangladesh Bank shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.
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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Christine Wallich
Country Director
Bangladesh

BANGLADESH BANK

By /s/ Muhammad A. Rumee Ali
Authorized Representative
SCHEDULE 1

Terms and Conditions

A. Principal Terms and Conditions of Subloans, Investments and Participation Agreements

Except as the Association shall otherwise agree, the principal terms and conditions set forth in this Schedule shall apply for the purposes of Section 2.02 of this Agreement with respect to Participation Agreements.

1. Currency

All Subloans made under Part A of the Project shall be denominated in Taka.

2. Interest Rates

(a) Interest on a PFI Subsidiary Loan shall be charged on the principal amount thereof outstanding from time to time at a reference interest rate which shall be based on Bangladesh Bank’s refinance rate, which is currently at 5% (the Reference Interest Rate).

(b) Interest on Subloans to Beneficiaries shall be as determined by PFIs based on market conditions.

3. Maturities

Subloans under Part A of the Project shall have maturities of up to five years, including grace period of up to one year.

4. Repayments

PFI Subsidiary Loans shall be repaid by a PFI to Bangladesh Bank in accordance with fixed repayment schedules.

5. Pre-payment

(a) If a Subloan shall be repaid to a PFI in advance of maturity or if a Subloan or any part of any such Subloan or loan shall be sold, transferred, assigned or otherwise disposed of for value by a PFI, the PFI shall promptly notify Bangladesh Bank and shall repay to Bangladesh Bank on the next following interest payment date the amount withdrawn in respect of any such Subloan or part thereof.
(b) Any amount so repaid by the PFI shall be applied by Bangladesh Bank to the maturity or maturities of the PFI Subsidiary Loan in amounts corresponding to the outstanding amounts of the maturity or maturities of the Subloan so repaid or disposed of.

6. Participation Agreement

Each Participation Agreement shall contain provisions pursuant to which each PFI shall:

(a) continue to be duly established and operating under the laws of the Borrower;

(b) continue to maintain a sound financial structure, a healthy portfolio, and the organization, management, staff and other resources required for the efficient carrying out of its activities;

(c) continue to conduct its operations and affairs including interest rate policies in accordance with sound financial principles and practices;

(d) continue to maintain a lending and investment policy acceptable to the Association and Bangladesh Bank, and suitable procedures and an adequate number of suitably qualified staff to enable it effectively to:

(i) appraise the financial, technical, environmental and economic feasibility of Investment Projects and to make Subloans to Beneficiaries in accordance with sound lending and investment policy and on the basis of the criteria, procedures and principal terms and conditions set forth in this Schedule; and

(ii) supervise, monitor and report on the carrying out by Beneficiaries of Investment Projects.

(e) exercise its rights in respect of Subloans in such a manner as to protect the interests of the Borrower, the Association and Bangladesh Bank and to comply with its obligations under its Participation Agreement in order to achieve the purposes of Part A of the Project;

(f) undertake not to assign, amend, abrogate or waive any of its agreements providing for Subloans or Investments or any provision thereof without the approval of Bangladesh Bank;

(g) within six weeks of the end of the first and the second six months of the calendar year, furnish to Bangladesh Bank semi-annual progress reports outlining the progress of each Investment Project; and
(h) furnish to Bangladesh Bank monthly reports on the operation of the sub-accounts.

7. Procurement

With respect to the procurement of goods and services to be financed under Subloans, each Participation Agreement shall contain provisions requiring each PFI to ensure that goods and services shall be purchased at a reasonable price, account being taken also of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor and, in the case of services, of their quality and the competence of the parties rendering them.

B. Procedures and Terms and Conditions of Subloans

1. Subloans shall be made on terms whereby Bangladesh Bank shall cause each PFI to obtain, by written contract with the Beneficiary or by other appropriate legal means, rights adequate to protect the interests of the Borrower, the Association and Bangladesh Bank, including the right to:

   (a) require the Beneficiary to carry out and operate the Investment Project with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and to maintain adequate records and accounts;

   (b) inspect, by itself or jointly, with representatives of the Association if the Association shall so request, such goods and the sites, works, plants and construction included in the Investment Project, the operation thereof, and any relevant records and documents;

   (c) obtain all such information as the Association or Bangladesh Bank shall reasonably request relating to the foregoing and to the administration, operations and financial condition of the Beneficiary and to the benefits to be derived from the Investment Projects; and

   (d) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Credit upon failure by such Beneficiary to perform its obligations under its contract with the PFIs.

2. Eligibility Criteria for Beneficiaries and Investment Projects

   (a) All small enterprises that require loans not exceeding Tk 5,000,000 shall be eligible to receive Subloans from PFIs.
(b) Subloans and Investments shall be used by Beneficiaries to finance rehabilitation and expansion of existing enterprises as well as for establishing new enterprises, including: (i) fixed assets (including machinery, equipment, factory buildings and related civil works), technical know-how, consultancy services and training; (ii) permanent working capital (including initial stocks or increases in stocks of raw materials, spare parts and components); (iii) free-standing working capital (including raw materials, spare parts and components) to expand capacity utilization of existing firms; and (iv) leasing of industrial and business equipment; provided however that no proceeds of the Credit shall be used to finance enterprises involved in the manufacturing, distributing, or servicing of alcoholic beverages, unmanufactured tobacco, tobacco refuse, manufactured tobacco (whether or not containing tobacco substitutes), tobacco processing machinery, radioactive and associated materials, nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors, goods intended for a military or paramilitary purpose, and environmentally hazardous goods.