Dear Mr. Mahmood:

Strengthening Public Expenditure Management Program – Deepening the Medium Term Budget Framework and Strengthening Financial Accountability Project (Grant No. TF095283-BD) – Amendment to the Grant Agreement

We refer to the Grant Agreement between the People’s Republic of Bangladesh (the Recipient) and the International Development Association (the Association), acting as administrator of the Multi-Donor Trust Fund for Strengthening Public Expenditure Management Program, for the Deepening the Medium Term Budget Framework and Strengthening Financial Accountability Project (the Project), dated October 29, 2009, as amended (the Agreement). We also refer to the discussions between Ministry officials and Association staff during the last Implementation Support Mission with regard to the proposed restructuring of the Project.

We are pleased to inform you that, after due consideration, the Association proposes to amend the Agreement as follows:

1. Schedule 1 to the Agreement is amended to read as set forth in Attachment 1 to this letter.

2. A new paragraph 4 is added to Section I.A of Schedule 2 to the Agreement reading as follows:

   “4. The Recipient shall establish and thereafter maintain, throughout the implementation of the Project, a Project Executive Committee, at the working level, consisting of the Additional Secretary, Budget, Finance Division, and the Project Director, Component Directors, MISC Project Coordinator and focal points of selected line ministries; and responsible for meeting quarterly and reviewing progress reports, monitoring the work plan with respect to time-bound deliverables and any implementation issues affecting the Project, and taking direct measures as may be appropriate to mitigate any risks or problems hindering Project implementation.”
3. The table in paragraph 2 of Section IV.A of Schedule 2 to the Agreement is amended to read as set forth in the Attachment 2 to this letter.

4. The Annex to Schedule 2 to the Agreement is amended to read as set forth in Attachment 3 to this letter.

5. The term “Component Coordinator”, wherever used in the Agreement, means the “Component Director”.

Except as specifically amended by this letter of amendment, all other provisions of the Agreement shall remain unchanged and in full force and effect.

Please confirm your agreement to the foregoing on behalf of the Recipient by countersigning and dating the corresponding form of confirmation set forth below, and returning one fully signed original of this letter to us.

Upon receipt by the Association of the copy of this letter of amendment duly countersigned by the authorized representative of the Recipient, the above amendment to the Agreement shall become effective as of the date of countersignature.

Sincerely yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

Ellen Goldstein
Country Director

AGREED:
PEOPLE’S REPUBLIC OF BANGLADESH

By:  
Authorized Representative  
Name: (Arastoo Khan) 
Title: Economic Relations Division 
Date: Ministry of Finance
People's Republic of Bangladesh

Grant No. TF095283-BD
Revised Project Description

The objective of the Project is to strengthen and modernize budget management institutions within the Recipient with a particular emphasis on a performance orientation in public financial management through institutionalizing the Medium Term Budget Framework and Strengthening Financial Accountability.

The Deepening the Medium Term Budget Framework and Strengthening Financial Accountability Project, in addition to Project management and coordination, consists of the following Parts:

Part 1: Strategic Policy, Planning and Budget Management

1.1. Macro Fiscal Policy and Management

Provision of support to the Finance Division capacity for developing capacities for macro-fiscal forecasting and analysis, and fiscal policy management.

1.2. Debt, Treasury and Cash Management

1.2.1. Strengthen the Recipient’s structures, processes and skills to manage its debt obligations more effectively, more particularly in, *inter alia*: (a) improving governance, coordination and monitoring mechanisms among all its agencies dealing with debt management; (b) building capacity for preparation of the debt strategy, debt policy formulation, data recording and analysis resource and debt management; (c) building capacity to manage contingent liabilities; and (d) strengthening the regulatory framework for public borrowing.

1.2.2. Support the Recipient in the establishment of a sound and coherent system of treasury, cash and debt management by, *inter alia*: (a) reviewing treasury functions; (b) designing, testing and implementation of a preliminary module for cash management; (c) installing of the requisite systems either as: (i) an interface or (ii) an added functionality, to the integrated budget and accounting system; (d) improving treasury and cash management; and (e) establishing liquidity planning tools

1.3. Strengthening Budget Management and MBTF

1.3.1. Provision of support to the Finance Division capacity for leading and managing all aspects of the MTBF approach to budgeting including *inter alia*: (a) developing institutional processes and capacities to provide guidance on MTBF to the cabinet and line ministries, including reviewing MTBF submissions from line
ministries; (b) strengthening poverty and gender budgeting; (c) strengthening budget and accounts classification; (d) strengthening central monitoring and evaluation of budget implementation; (e) strengthening capacity to play a developmental role on the internal audit function in line ministries.

1.3.2. Develop capacity in the Recipient’s line ministries by, inter alia: (a) rolling out a more policy oriented budget processes to all line ministries; and (b) developing institutional processes and administrative structures and capacities in line ministries to enable them to implement effective internal controls, manage resources and achieve results in line with policies.

1.4. Strengthening Planning Commission

Strengthening the Planning Commission’s role in building a sound economic policy and development strategy framework through results-based monitoring of the Sixth Five Year Plan.

1.5. Legal and Regulatory

Support the Recipient’s regulatory reforms in public financial management, including inter alia: (a) implementing a Public Money and Budget Management Act; and (b) reviewing and revising the general financial rules, including treasury rules and accounts codes.

Part 2: Public Financial Systems

2.1. Accounting and Financial Reporting

Strengthen the Recipient’s capacities in making better informed financial and fiscal decisions by, inter alia: (a) improving the quality of accounts, timeliness and reliability of financial and fiscal reports; (b) supporting the re-engineering of existing business processes and procedures and applying international standards; (c) improve the accounting code and the quality and format of financial reports, including incorporation of departmentalized accounting entities; and (d) developing internal capacity to manage the systems and accounting and financial reporting.

2.2. Payroll, Pensions, GPF, Loans, Advances & Assets

Support the Recipient in, inter alia: (a) the review of payroll, pensions, general provident funds, loans and advances and existing physical assets; (b) the conduct of diagnostic studies to identify a system with design features and priorities to initiate improvements in data quality, procedures, and control; and (c) building a central data base of the existing physical assets of the Recipient.

Part 3: Capacity Building and Training

Support the Recipient in strengthening its human resource capacity by, inter alia: (a) conducting an assessment of training needs in public financial management; and (b) developing a training strategy for the implementation of the Project.
<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods</td>
<td>10,810,031</td>
<td>100% (net of duties and taxes)</td>
</tr>
<tr>
<td>(2) Works, Consulting Services, Training and Study Tours</td>
<td>31,285,313</td>
<td>100% (inclusive of taxes)</td>
</tr>
<tr>
<td>(3) Operating Costs</td>
<td>2,649,928</td>
<td>88% (inclusive of taxes)</td>
</tr>
<tr>
<td>(4) Unallocated</td>
<td>5,254,728</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>50,000,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
People's Republic of Bangladesh  
Grant No. TF095283-BD  
Revised Performance Indicators

The Project will contribute to the following reform objectives and key indicators:

1. Macroeconomic stability
   (a) Deviation between forecasts in the original MTMF and actual numbers for:
      (i) Budget deficit to GDP (as % of GDP)
      (ii) Current Account Balance (as % of GDP)

2. Improving accountability and transparency in the budget process
   (a) Percentage variance between the original budget and actual budget out-turn for the previous FY

3. Strengthening the linkage between planning and budgeting
   (a) Budget documents are presented in the unified format of revenue and capital
   (b) Number of LM prepared Medium Term Strategic and Business Plans

4. Sustainable capacity building in Public Finance Management
   (a) Post course evaluation provide evidence that skills and knowledge of the government in PFM increased substantially

5. Improving accounting and financial reporting
   (a) Identify instant cash position of the government through enhanced iBAS system
   (b) Submission and re-appropriation of budget electronically from any pay point level
   (c) Consolidated financial/fiscal reports produced from enhanced iBAS system:
      (i) within deadline
      (ii) consistent with GFS 2001 and COFOG

6. Public Finance Foundation established
   (a) PFF becomes a Center of Excellence in PFM-related trainings, research, publications and capacity building