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A.I.D. PROJECT NO. 388-0076  
INDUSTRIAL PROMOTION

Loan and Grant Agreements

FM/LMD (if Loan)

FM/PAFD

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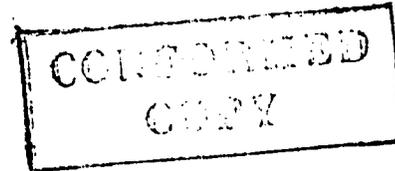
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PROJECT  
GRANT AGREEMENT  
BETWEEN  
THE PEOPLE'S REPUBLIC OF BANGLADESH  
and the  
UNITED STATES OF AMERICA  
for the  
INDUSTRIAL PROMOTION PROJECT

DATED: AUGUST 31, 1989

USAID/DHAKA,  
BANGLADESH

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PROJECT GRANT AGREEMENT

Dated: August 31, 1989

Between

The People's Republic of Bangladesh ("Grantee",  
"Bangladesh Government" or "BDG")

And

The United States of America, acting through the  
Agency for International Development ("A.I.D.").

Article 1: The Agreement

The purpose of this Agreement is to set out the understandings of the parties named above ("Parties") with respect to the undertaking by the Grantee of the Project described below, and with respect to the financing of the Project by the Parties.

Article 2: The Project

SECTION 2.1. Definition of Project. The Project, which is further described in Annex 1, will support and expand efforts to develop the Bangladesh private sector and increase employment by expanding the size and number of private enterprises, especially those employing labor-intensive technologies. The project seeks to increase small enterprise access to private institutional financing; improve the climate for foreign and local investment by reducing policy and procedural barriers to enterprise formation and operation; and improve marketing, management and production efficiency of small enterprises by increasing access to technology, technical assistance and training.

Annex 1, attached, amplifies the above definition of the Project. Within the limits of the above definition of the Project, elements of the amplified description stated in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.2, without formal amendment of this Agreement.

SECTION 2.2. Incremental Nature of Project.

(a) A.I.D.'s contribution to the Project will be provided in increments, the initial one being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to the availability of funds to A.I.D. for this purpose, and to the mutual agreement of the Parties, at the time of a subsequent increment, to proceed.

(b) Within the overall Project Assistance Completion Date stated in this Agreement, A.I.D., based upon consultation with the Grantee, may specify in Project Implementation Letters appropriate time periods for the utilization of funds granted by A.I.D. under an individual increment of assistance.

Article 3: Financing

SECTION 3.1. The Grant. To assist the Grantee to meet the costs of carrying out the Project, A.I.D., pursuant to the Foreign Assistance Act of 1961, as amended, agrees to grant the Grantee under the terms of this Agreement an amount not to exceed One Million Six Hundred Fifty Thousand United States Dollars (U.S. \$1,650,000) ("Grant"). The Grant may be used to finance foreign exchange costs, as defined in Section 6.1, and local currency costs, as defined in Section 6.2, of goods and services required for the Project.

SECTION 3.2. Grantee Resources for the Project.

(a) The Grantee agrees to provide or cause to be provided for the Project all funds, in addition to the Grant, and all other resources required to carry out the Project effectively and in a timely manner, as agreed upon by the Parties.

(b) Resources provided by the Grantee for the Project will be not less than Six Million Five Hundred Thirty-Six Thousand Three Hundred Thirty-Six Bangladesh Takas (Tk. 6,536,336) or the equivalent of Two Hundred Three Thousand United States Dollars (\$203,000), including costs borne on an "in-kind" basis. In addition to sums provided by the Grantee, it is anticipated that local private sector contributions to the Advisory Services Component of the Project will equal approximately Thirty-Nine Million Bangladesh Takas (Tk. 39,089,000), the equivalent of One Million Two Hundred Fourteen Thousand U.S. Dollars (U.S. \$1,214,000). Together these contributions exceed twenty-five percent of total estimated bilateral project costs.

SECTION 3.3. Project Assistance Completion Date.

(a) The Project Assistance Completion Date ("PACD") for bilateral project activities financed under this Grant is September 30, 1994, or such other date as the Parties may agree to in writing. It is the date by which the Parties estimate that all services financed under the Grant will have been performed and all goods financed under the Grant will have been furnished for the Project as contemplated in this Agreement. The PACD for the overall project, including non-bilateral activities, is September 30, 1996, or such later date as the Parties may agree to in writing.

(b) Except as A.I.D. may otherwise agree in writing, A.I.D. will not issue or approve documentation which would authorize disbursement of the Grant for services performed subsequent to the PACD or for goods furnished for the Project, as contemplated in this Agreement, subsequent to the PACD.

(c) Requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, are to be received by A.I.D. or any bank described in Section 7.1 no later than nine (9) months following the PACD, or such other period as A.I.D. agrees to in writing. After such period, A.I.D., giving notice in writing to the Grantee, may at any time or times, reduce the amount of the Grant by all or any part thereof for which requests for disbursement, accompanied by necessary supporting documentation prescribed in Project Implementation Letters, were not received before the expiration of said period.

Article 4: Condition Precedent to Disbursement

SECTION 4.1. Initial Disbursement. Prior to any disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee shall, except as A.I.D. may otherwise agree in writing, furnish to A.I.D. in satisfactory form and substance:

(a) a statement of the name of the person holding or acting in the office of the Grantee specified in Section 8.2, and of any additional representatives, together with a specimen signature of each person specified in such statement.

(b) evidence of the availability of appropriate office space and staff to support the operations of the Policy Implementation and Analysis Group (PIAG) to be established under the Project; and

(c) evidence of formal appointment of an official of the Ministry of Industries of at least Joint Secretary rank to act as Director of the PIAG.

SECTION 4.2. Notification. When A.I.D. has determined that the condition precedent specified in Section 4.1 has been met, it will promptly notify the Grantee.

SECTION 4.3. Terminal Dates for Conditions Precedent. If the condition specified in Section 4.1 has not been met within 120 days from the date of this Agreement, or such later date as A.I.D. may agree to in writing, A.I.D., at its option, may cancel the then undisbursed balance of the Grant, to the extent not irrevocably committed to third parties, and may terminate this Agreement by written notice to Grantee.

Article 5: Special Covenants

SECTION 5.1. Project Evaluation.

The Parties agree to establish an evaluation program as part of the Project. Except as the Parties otherwise agree in writing, the program will include, during the implementation of the Project and at one or more points thereafter. Evaluations are expected to involve the following elements:

(a) evaluation of progress toward attainment of the objectives of the Project;

(b) identification and evaluation of problem areas of constraints which may inhibit such attainment;

(c) assessment of how such information may be used to help overcome such problems; and

(d) evaluation, to the degree feasible, of the overall development impact of the Project.

SECTION 5.2. Privileges and Immunities of Expatriate Consultants and Staff.

The BDG, including the National Board of Revenue, agrees that the terms of the 1974 Agreement on Economic, Technical and Related Assistance between the Bangladesh and U.S. Governments apply to this Project, and that all expatriate experts, consultants, contractors, and staff employed through or in connection with the Project shall be afforded the privileges, exemptions and immunities of privileged persons of the most privileged category under BDG regulations (currently S.R.O. 88-L/85/906/Cus. and 89-I/85/907/Cus., dated 13 February 1985, as periodically revised, or successor regulations). This provision applies to expatriate staff financed under all project components described in Annex 1, including those hired by governmental and non-governmental implementing organizations referenced therein, or by subgrantees or successor organizations or other nongovernmental organizations approved by the Ministry of Industries.

SECTION 5.3. Return of Trainees. The Grantee shall make its best efforts to secure the return of Bangladesh Government trainees to Bangladesh after completion of their training abroad, shall assign the trainees to Bangladesh Government or other positions relevant to the training received and shall utilize the trainees in such positions according to Bangladesh law and regulations. Further, for any trainees trained in the U.S. under this project, the Grantee shall not issue any non-objection letters concerning waiver of the two year home country residency requirement applicable to immigrant, permanent residence, or H or L visas under Section 212(e) of the U.S. Immigration and Nationality Act, without the prior written consent of A.I.D. Participant training elements of this Project will be accomplished in accordance with the policies, allowances, guidance, and reporting requirements of A.I.D. Handbook 10 - Participant Training.

SECTION 5.4. Exemptions for Project Goods.

(a) All commodities, supplies, materials, equipment, vehicles and other goods financed by A.I.D. and imported into

Bangladesh after endorsement by the Ministry of Industries (MOI) for use in the Industrial Promotion Project, including items imported for activities of the PIAG, the SICIS, the BASC, the BUSBC, and the IESC, as mentioned in this Agreement, or by their subgrantees or successor organizations or other nongovernmental organizations approved by the Ministry of Industries, shall be exempt from all taxes, customs duties, fees or tariffs (CDST) imposed under the laws of the People's Republic of Bangladesh. To the extent commodities imported for the PIAG are not exempt from CDST, such costs shall be budgeted for and expeditiously paid by the Ministry of Industries.

(b) The Grantee agrees that, as stated in Section 11 of the 1989-91 Import Policy Order, right of refusal (ROR) and non-objection certificate (NOC) procedures shall not be applicable to commodities and equipment financed and imported under this Grant for the Project.

#### SECTION 5.5. Establishment of Steering Committee

The Grantee shall establish a steering committee consisting of members from the MOI and influential members of the public and private sector to oversee the operation of the PIAG.

#### Article 6: Procurement Source

SECTION 6.1. Foreign Exchange Costs. Disbursements pursuant to Section 7.1 will be used exclusively to finance the costs of goods and services required for the Project having, with respect to goods, their source and origin, and with respect to services their nationality, in the United States or in Code 941 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods and services ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in the Project Grant Standard Provisions Annex, Section C.1(b) with respect to marine insurance. Ocean transportation costs will be financed under the Grant only on vessels under flag registry of the United States or Bangladesh, except as A.I.D. may otherwise agree in writing.

SECTION 6.2. Local Currency Costs. Disbursements pursuant to Section 7.2 will be used exclusively to finance the costs of goods and services required for the Project having their source and, except as A.I.D. may otherwise agree in writing, their origin in Bangladesh ("Local Currency Costs"). To the extent provided for under this Agreement, "Local Currency Costs" may also include the provision of local currency resources required for the Project.

Article 7: Disbursements

SECTION 7.1. Disbursement for Foreign Exchange Costs.

(a) After satisfaction of Conditions Precedent, the Grantee may obtain disbursements of funds under the Grant for the Foreign Exchange Costs of goods or services required for the Project in accordance with the terms of this Agreement, by such of the following methods as may be mutually agreed upon:

(1) by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, (A) requests for reimbursement for such goods or services, or, (B) requests for A.I.D. to procure commodities or services in the Grantee's behalf for the Project; or

(2) by requesting A.I.D. to issue Letters of Commitment for specified amounts (A) to one or more U.S. banks, satisfactory to A.I.D., committing A.I.D. to reimburse such bank or banks for payments made by them to contractors or suppliers, under Letters of Credit or otherwise, for such goods or services, or (B) directly to one or more contractors or suppliers, committing A.I.D. to pay such contractors or suppliers for such goods and services.

(b) Banking charges incurred by the Grantee in connection with Letters of Commitment and Letters of Credit will be financed under the Grant unless Grantee instructs A.I.D. to the contrary. Such other charges as the Parties may agree to may also be financed under the Grant.

SECTION 7.2. Disbursement for Local Currency Costs.

(a) After satisfaction of Conditions Precedent, the Grantee may obtain disbursements of funds under the Grant for Local Currency Costs required for the Project in accordance with the terms of this Agreement, by submitting to A.I.D., with necessary supporting documentation as prescribed in Project Implementation Letters, requests to finance such costs.

(b) The local currency needed for such disbursements may be obtained by acquisition by A.I.D. with U.S. dollars by purchase, or from local currency already owned by the U.S. Government. The U.S. dollar equivalent of the local currency made available hereunder will be the amount of U.S. dollars required by A.I.D. to obtain the local currency.

SECTION 7.3. Other Forms of Disbursement. Disbursements of the Grant may also be made through such other means as the Parties may agree to in writing.

SECTION 7.4. Rate of Exchange. Except as may be more specifically provided under Section 7.2, if funds provided under the Grant are introduced into Bangladesh by A.I.D. or any public or private agency for purposes of carrying out obligations of A.I.D. hereunder, the Grantee will make such arrangements as may be necessary so that funds may be converted into currency of Bangladesh at the highest rate of exchange which, at the time the conversion is made, is not unlawful in Bangladesh.

Article 8: Miscellaneous

SECTION 8.1. Communications. Any notice, request, document or other communication submitted by either Party to the other under this Agreement will be in writing or by telegram or cable, and will be deemed duly given or sent when delivered to such Party at the following addresses:

To the Grantee:

Mail Address - Secretary  
External Resources Division  
Ministry of Planning  
Sher-e-Bangla Nagar  
Dhaka, Bangladesh.

Alternate Address  
for Cables - SETU, DHAKA, BANGLADESH

To the Agency for International Development:

Mail Address - U.S.A.I.D. Mission/Bangladesh  
G.P.O. Box No. 2593  
Dhaka, Bangladesh.

Alternate Addresses for:  
Cables - USAID, DHAKA, BANGLADESH.  
Telex - 642319 AEDKA BJ  
Telefax - 880-2-411648

All such communications will be in English, unless the Parties otherwise agree in writing. Other addresses may be substituted for the above upon the giving of notice.

SECTION 8.2. Representatives. For all purposes relevant to this Agreement, the Grantee will be represented by the individual holding or acting in the Office of Secretary or Joint Secretary of the External Resources Division, Ministry of Planning, and A.I.D. will be represented by the individual holding or acting in the Office of Director, U.S.A.I.D./Bangladesh, each of whom, by written notice, may designate additional representatives for all purposes other than exercising the power under Section 2.1 to revise elements of the amplified description of the project in Annex 1.

The Secretary and Additional Secretary of the Ministry of Industries are designated as additional representatives of the Grantee under this Agreement and may by written notice designate other such additional representatives. The names of the representatives of the Grantee, with specimen signatures, will be provided to A.I.D., which may accept as duly authorized any instrument signed by such representatives in implementation of this Agreement, until receipt of written notice of revocation of their authority.

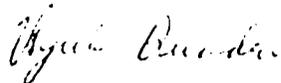
SECTION 8.3. Standard Provisions Annex. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the People's Republic of Bangladesh and the United States of America, each acting through its duly authorized representative, have caused this Agreement to be signed in their names and delivered as of the day and year written below.

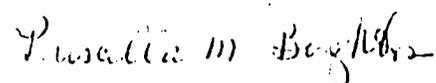
FOR THE PEOPLE'S REPUBLIC OF AMERICA

FOR THE UNITED STATES OF BANGLADESH

BY:



BY:



Name: Ayub Quadri

Name: Priscilla M. Boughton

Title: Joint Secretary  
External Resources Division  
Ministry of Planning

Title: Mission Director  
USAID/Dhaka  
Bangladesh

Date: August 31, 1989

Date: August 31, 1989

AMPLIFIED PROJECT DESCRIPTION

INDUSTRIAL PROMOTION PROJECT (A.I.D. PROJECT NO. 388-0076)

I. Introduction

The Industrial Promotion Project (IPP) is designed to support and expand upon the progress that the Government of the People's Republic of Bangladesh (BDG) has achieved in promoting the development of the country's private sector. It is built on the premise that development projects must mobilize both private capital and private initiative to achieve economic growth and government development goals.

This project was developed with the considerable assistance and participation of representatives of the business community in Bangladesh and representatives of the BDG.

II. Project Rationale

Increased production and employment generation are recognized as essential to achieving sustained economic growth in Bangladesh in both the current Five Year Plan (1985-1990) and the USAID/Dhaka Country Development Strategy Statement. While the agricultural sector is a major source of existing and new employment, by itself, it cannot absorb the massive number of new entrants into the labor force. According to World Bank estimates, approximately 40% of new entrants into the workforce will seek urban-based employment. Both USAID and BDG strategy documents recognize market led growth of the industrial and commercial sectors as a critical source of these new employment opportunities.

Past studies have consistently shown the following major constraints to expansion of the industrial and commercial sectors in Bangladesh. These constraints include;

- Unavailability of institutional credit for small industries;
- Conflicting policies, burdensome regulations and excessive approval requirements;
- Critical shortages of middle and senior management talent to address production and marketing requirements; and
- Limited access to and use of technologies that would increase production, improve quality and reduce costs.

The rationale underlying the design of the IPP is that it is necessary to address all of these constraints simultaneously in order to achieve sustained expansion of the industrial and commercial sectors in Bangladesh.

### III. Project Objectives

The overall goal of the IPP is to increase the employment base of Bangladesh by expanding the size and number of enterprises, especially those employing labor-intensive technologies. The project objectives address each of the conditions generally viewed as the major constraints to expansion of the industrial base in Bangladesh. These project objectives are to:

Increase small enterprise access to private institutional financing;

Improve the climate for foreign and local investment by reducing policy and procedural barriers to enterprise formation and operation; and

Improve marketing, management and production efficiency of small enterprises by increasing access to technology, technical assistance and training.

### IV. Project Description and Implementation

The activities discussed below will be supported under the umbrella of the IPP to accomplish the above objectives. The present bilateral Project Grant Agreement obligates approximately \$ 1.55 million to the Bangladesh Government to finance the Policy Implementation Analysis Group activities. It is planned that separate non-bilateral, obligating instruments will be signed with the appropriate private sector implementing organizations for each of the remaining components.

A. Policy Implementation Analysis Group (PIAG) The IPP will finance a policy analysis and consulting unit to identify legal, regulatory and procedural constraints to industrial formation due to policy implementation problems, and to conduct industrial and non-industrial policy analyses in support of deregulation and other reforms. The goal of the PIAG component is to improve the actual policy environment for the private sector, especially small industries, and thereby increase business activity, employment and exports. The purpose is to strengthen the capacity of the Ministry of Industries (MOI) to implement the current set of policies and conduct policy and other analyses that will result in at least 5 major policy reforms.

The PIAG will be established as a unit within the MOI. It will be staffed by a small 4-5 person core of professional analysts and policy experts, including a long-term expatriate advisor, who will work together to provide comprehensive analyses on a full range of topics ranging from investment strategy, and legal and industrial deregulation, to sanctioning and review procedures, and

systems analysis. In addition, the PIAG will hire short-term expertise and seek deputed government and private sector representatives, such as chamber of industries and commerce staff, to supplement the professional resources of the core staff. Training for BDG officials and others will be available to improve their ability to implement and design effective policies.

A Steering Committee will be formed, chaired by representatives from the MOI, the Board of Investment, BSCIC, the private sector, and USAID. One of the private sector representatives should be a women. Its function will be to oversee the operations of the group and work to ensure it is meeting project objectives.

Long term advisors will be employed under an AID direct contract with a firm selected through competitive process with considerable input from the MOI. The MOI will be responsible for providing office space and support staff for the PIAG during the life of the activity.

B. Small Industry Credit Insurance Scheme (SICIS) It is also anticipated that, under other, non-bilateral obligating instruments, the IPP will support a credit guarantee scheme that will reduce the risk to commercial banks of extending term loans to small industries. The purpose of the SICIS is to open up new sources of institutional financing for small industries in Bangladesh. The IPP will establish a credit insurance facility that will enable commercial banks to lend to this sector, and demonstrate it can be done profitably. The SICIS would provide commercial banks with an insurance policy against non-performance of loans made with their own funds. It is planned that the SICIS will cover 50% of the outstanding value of loans should they default under the program.

Phase I of the SICIS activity, involving commitments of approximately \$4.1 million, will be financed largely through the authority of the Loan Portfolio Guarantee (LPG) Program and administered by the A.I.D./Washington Bureau for Private Enterprise. Related training for bank staff from a U.S. firm selected by USAID and employed under an A.I.D. direct contract will be financed by IPP. Two or more eligible private banks will be selected for participation in Phase I under the standard terms and conditions of the LPG Program. The LPG Program may be used to guarantee eligible loans by private banks and financial institutions for an initial period of 3 years; that period may be extended by two additional 3-year periods if warranted, for a total of nine years.

An assessment will be made after approximately two years of experience with the IPP to determine the nature and level of demand for credit under the guarantee scheme. Based upon the outcome, the credit guarantee scheme may be expanded using Mission funds authorized under the IPP.

If the assessment determines that Phase II is warranted, USAID will under take final design of the activity with input from appropriate local organizations and the MOI, with implementation to follow. The SICIS II implementation option currently under consideration involves establishment of an independent Guarantee Corporation, capitalized with IPP and bank funds, and managed by a private insurance company under the terms of a fee-for-services contract.

Under Phase I, only private banks and financial institutions will be eligible for SICIS coverage. During Phase II, other banks will be considered for eligibility. Participating banks will submit loans in conformance with prudent banking practices. The bank will agree to intervene when payments are missed to bring loans back to accrual status, and to write loans off against provisions for bad debt when submitting for claims. It is expected that loan losses will be minimized since banks will be using their own funds to finance actual loans.

C. Advisory Services. It is planned that the IPP will finance three sources of specialized business advisory services to a full range of small, medium and large enterprises. Each element will address specific management, marketing and technology related constraints to their formation or expansion. Each will involve provision of technical assistance to private enterprises on a fee-for-service basis.

1. First, the Business Advisory Services Center (BASC) will be established to increase small industry access to technical assistance and training by using private consulting industry market mechanisms. The goal of the BASC is to improve the market for private provision of technical services, especially to small and women-owned enterprises. The purpose of the BASC is to establish a privately run organization that will act as a broker of technical services, locating and diagnosing small industry's demand for technical assistance and mobilizing the supply of expertise in the country, the region and the U.S.

The BASC will be organized, first, within a local private small enterprise promotion organization--the Micro-enterprise Industries Development Assistance Society (MIDAS). During the life of the project, the BASC will be formally established as an independent company. USAID will fund BASC activities and the salary of a long term advisor through a cooperative agreement with MIDAS. As part of this agreement, MIDAS will work with BSCIC, IESC (see below) and representatives of the private sector to set up BASC as an organization and work closely with BASC during its first year of independent operations. Once established, USAID plans to provide support to the BASC directly.

A Board of Directors will provide oversight of the management and performance of the organization. It will consist of representatives from private business, the banking community, BSCIC, the consulting industry, the Board of Investment and other concerned institutions. The BASC's main functions will be promotional and organizational, and it will have a small staff, relying primarily on outside, private or public sources of expertise.

2. As a second element under the Advisory Services component of the IPT, USAID plans to continue to fund start-up activities of the Bangladesh/US Business Council (BUSBC), an activity originally financed under the Technical Resources Project (A.I.D. Project No. 388-0027). It is planned that the IPR will finance BUSBC activities for an additional sixteen months (through December 1990), under the current USAID cooperative agreement with BUSBC, to enable BUSBC to become a self-supporting, membership organization providing investment information and liaison services to current and potential U.S. investors in Bangladesh.
3. Lastly, the Advisory Services component will fund the establishment of an International Executive Service Corp (IESC) program in Bangladesh. IESC is a US-based, non-profit organization which, on request from Bangladeshi entrepreneurs, will locate retired executives of U.S. firms willing to work on specific, firm-level problems by means of short-term, voluntary visits to Bangladesh. The objective of this component is to conclude 70 consultations over 5 years, and thereby generate approximately 700 new job opportunities.

It is anticipated that A.I.D. will sign a two-year Cooperative Agreement with the IESC. BSCIC and the MOI will serve as IESC counterparts. IESC's activities are expected to require one local-hire senior professional and one or two supporting staff. At the end of the two-year period, an evaluation will be conducted and, if warranted, the Cooperative Agreement may be extended for an additional three years.

Each of the project components will be monitored and evaluated individually, with USAID and the MOI monitoring overall project progress towards achievement of objectives. USAID will contract separately for monitoring and evaluation and audit services required for the project.

#### V. Project Outputs

The project outputs are mutually supportive. In combination, they are expected to have a more significant effect on the growth of the small industries sector than the sum of the effects of the individual outputs taken separately.

Policy Implementation Analysis Group: Over the planned 5-year life of the PIAG component, at least 20 major studies of market-led reforms will be conducted leading to at least 10 major policy reforms and improved procedures for handling investment sanctioning by the Board of Investment.

Small Industry Credit Insurance Scheme: Planned obligations for the SICIS are shown in the attached illustrative financial plan. The SICIS will be implemented in two stages. The Pilot Phase I of the SICIS is expected to finance up to \$4 million in guarantee coverage. Based upon 50% coverage of average loans of \$100,000, with four-year terms, Phase I will support a total of \$8 million in loans outstanding at any one time.

If the results at the end of the pilot phase warrant, a second phase will be fully designed and initiated. It is anticipated that SICIS Phase II could have the capacity to support over 2,000 small enterprise loans averaging \$100,000, with a fund life of 12 years. The impact of the program will be further increased through the "demonstration effect" in that other banks can be expected to increase their level of small business lending in light of the SICIS experience.

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Advisory Services: Through a combination of firm and industry level, fee-based consultations and short-term training courses, over a five year period, the three elements of the Advisory Services component will assist over 350 new and existing enterprises, and 150 new and existing entrepreneurs will receive training. It is expected that the volume of private consulting for small enterprises will increase and that the BUSBC will become largely self-sufficient.

VI. Project Financial Plan

The estimated life-of-project is 7 years with total contributions by all parties involved estimated to be approximately \$70 million. This project will utilize inputs from A.I.D., Bangladesh and U.S. private sector and Bangladesh Government.

Planned project obligations for A.I.D. and BDG are shown in the attached Illustrative Financial Plan. Changes may be made to the plan by representatives of the BDG and USAID named in the text of this Agreement without formal amendment of the Agreement, provided such changes do not cause the A.I.D. contribution to exceed the total amount set forth in Section 3.1 of the Agreement or the BDG's contribution to be less than the amount set forth in Section 3.2 of the Agreement. Future funding in excess of the amount obligated under Section 3.1 of this Agreement, as amended, is subject to the availability of funds and mutual agreement of the parties to proceed.

**Best Available Document**

15

ILLUSTRATIVE FINANCIAL PLAN  
(US\$ 000's)

	<u>A. I. D.</u> <u>FY 89 (LOP)</u>	<u>BDG</u> <u>LOP</u>
<u>I. Planned Obligations Under this Agreement</u>		
Policy Implementation Analysis Group (PIAG):		
a. Technical Assistance	1,465	100
b. Training	100	-
c. Commodities/Equipment	57	66
d. Administrative Expenses	15	37
e. Contingency	13	-
Total	<u>1,650</u>	<u>203</u>
<u>II. Planned Obligations Under Other Agreements */</u>		
1. Small Industries Credit Insurance Scheme (SICIS)	<u>11,891**/</u>	-
2. Advisory Services:		
a. Business Advisory Services Center (BASC)	2,390	-
b. Bangladesh/US Business Council	144	-
c. International Executive Service Corporation	950	-
Total	<u>3,484</u>	-
Audit, Monitoring, and Evaluation	<u>427</u>	-
<b><u>TOTAL PLANNED EXPENDITURES</u></b>	<b><u>17,452</u></b>	<b><u>203***</u></b>

\*/ Separate, non-bilateral agreements are planned to finance the following components through private sector organizations.

\*\*/ It is anticipated that \$4 million may be provided from funds allocated to AID/W under the Loan Portfolio Guarantee Program.

\*\*\*/ Additional local contributions from private sector sources are estimated to equal approximately \$52 million in local currency, including the Taka equivalent of approximately \$1,214,000 for local costs under the Advisory Services component, and matching bank and borrower capital provided under the SICIS component.

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Project Grant Standard

Provisions Annex

Definitions: As used in this Annex, the "Agreement" refers to the Project Grant Agreement to which this Annex is attached and of which this Annex forms a part: Terms used in this Annex have the same meaning or reference as in the Agreement.

Article A: Project Implementation Letters

To assist Grantee in the implementation of the Project, A.I.D., from time to time, will issue Project Implementation Letters that will furnish additional information about matters stated in this Agreement. The Parties may also use jointly agreed-upon Project Implementation Letters to confirm and record their mutual understanding on aspects of the implementation of this Agreement. Project Implementation Letters will not be used to amend the text of the Agreement, but can be used to record revisions or exceptions which are permitted by the Agreement, including the revision of elements of the amplified description of the Project in Annex 1.

Article B: General Covenants

SECTION B.1. Consultation. The Parties will cooperate to assure that the purpose of this Agreement will be accomplished. To this end, the Parties, at the request of either, will exchange views on the progress of the Project, the performance of obligations under this Agreement, the performance of any consultants, contractors, or suppliers engaged on the Project, and other matters relating to the Project.

SECTION B.2. Execution of Project. The Grantee will:

(a) carry out the Project or cause it to be carried out with due diligence and efficiency, in conformity with sound technical, financial, and management practices, and in conformity with those documents, plans, specifications, contracts, schedules or other arrangements, and with any modifications therein, approved by A.I.D. pursuant to this Agreement; and

(b) provide qualified and experienced management for, and train such staff as may be appropriate for the maintenance and operation of the Project, and, as applicable for continuing activities, cause the Project to be operated and maintained in such manner as to assure the continuing and successful achievement of the purposes of the Project.

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Article B: General Covenants (Continued)

SECTION B.3. Utilization of Goods and Services.

(a) Any resources financed under the Grant will, unless otherwise agreed in writing by A.I.D., be devoted to the Project until the completion of the Project, and thereafter will be used so as to further the objectives sought in carrying out the Project.

(b) Goods or services financed under the Grant, except as A.I.D. may otherwise agree in writing, will not be used to promote or assist a foreign aid project or activity associated with or financed by a country not included in Code 935 of the A.I.D. Geographic Code Book as in effect at the time of such use.

SECTION B.4. Taxation.

(a) This Agreement and the Grant will be free from any taxation or fees imposed under laws in effect in the territory of the Grantee.

(b) To the extent that (1) any contractor, including any consulting firm, any personnel of such contractor financed under the Grant, and any property or transaction relating to such contracts and (2) any commodity procurement transaction financed under the Grant, are not exempt from identifiable taxes, tariffs, duties or other levies imposed under laws in effect in the territory of the Grantee, the Grantee will, as and to the extent provided in and pursuant to Project Implementation Letters, pay or reimburse the same with funds other than those provided under the Grant.

SECTION B.5. Reports, Records, Inspections, Audit. The Grantee will:

(a) furnish A.I.D. such information and reports relating to the Project and to this Agreement as A.I.D. may reasonably request;

(b) maintain or cause to be maintained, in accordance with generally accepted accounting principles and practices consistently applied, books and records relating to the Project and to this Agreement, adequate to show, without limitation, the receipt and use of goods and services acquired under the Grant. Such books and records will be audited regularly, in accordance with generally accepted auditing standards, and maintained for three years after the date of last disbursement by A.I.D.; such books and records will also be adequate to show the nature and extent of solicitations of prospective suppliers of goods and services acquired, the basis of award of contracts and orders, and the overall progress of the Project toward completion; and

Article B: General Covenants (Continued)

(c) afford authorized representatives of a Party the opportunity at all reasonable times to inspect the Project, the utilization of goods and services financed by such Party, and books, records, and other documents relating to the Project and the Grant.

SECTION B.6. Completeness of Information. The Grantee confirms:

(a) that the facts and circumstances of which it has informed A.I.D., or cause A.I.D. to be informed, in the course of reaching agreement with A.I.D. on the Grant, are accurate and complete, and include all facts and circumstances that might materially affect the Project and the discharge of responsibilities under this Agreement;

(b) that it will inform A.I.D. in timely fashion of any subsequent facts and circumstances that might materially affect, or that it is reasonable to believe might so affect, the Project or the discharge of responsibilities under this Agreement.

SECTION B.7. Other Payments. The Grantee affirms that no payments have been or will be received by any official of the Grantee in connection with the procurement of goods or services financed under the Grant, except fees, taxes, or similar payments legally established in the country of the Grantee.

SECTION B.8. Information and Marking. The Grantee will give appropriate publicity to the Grant and the Project as a program to which the United States has contributed, identify the Project site, and mark goods financed by A.I.D., as described in Project Implementation Letters.

Article C: Procurement Provisions

SECTION C.1. Special Rules.

(a) The source and origin of ocean and air shipping will be deemed to be the ocean vessel's or aircraft's country of registry at the time of shipment.

(b) Premiums of marine insurance placed in the territory of the Grantee will be deemed an eligible Foreign Exchange Cost, if otherwise eligible under Section C.7(a).

(c) Any motor vehicles financed under the Grant will be of United States manufacture, except as A.I.D. may otherwise agree in writing.

(d) Transportation by air, financed under the Grant, of property or persons, will be on carriers holding United States certification, to the extent service by such carriers is available. Details on this requirement will be described in a Project Implementation Letter.

Article C: Procurement Provisions (Continued)

SECTION C.2. Eligibility Date. No goods or services may be financed under the Grant which are procured pursuant to orders or contracts firmly placed or entered into prior to the date of this Agreement, except as the Parties may otherwise agree in writing.

SECTION C.3. Plans, Specifications, and Contracts. In order for there to be mutual agreement on the following matters, and except as the Parties may otherwise agree in writing:

(a) The Grantee will furnish to A.I.D. upon preparation,

(1) any plans, specifications, procurement or construction schedules, contracts, or other documentation relating to goods or services to be financed under the Grant, including documentation relating to the prequalification and selection of contractors and to the solicitation of bids and proposals. Material modifications in such documentation will likewise be furnished A.I.D. on preparation;

(2) such documentation will also be furnished to A.I.D., upon preparation, relating to any goods or services, which, though not financed under the Grant, are deemed by A.I.D. to be of major importance to the Project. Aspects of the Project involving matters under this subsection (a)(2) will be identified in Project Implementation Letters;

(b) Documents related to the prequalification of contractors, and to the solicitation of bids or proposals for goods and services financed under the Grant will be approved by A.I.D. in writing prior to their issuance, and their terms will include United States standards and measurements;

(c) Contracts and contractors financed under the Grant for engineering and other professional services, for construction services, and for such other services, equipment or materials as may be specified in Project Implementation Letters, will be approved by A.I.D. in writing prior to execution of the contract. Material modifications in such contracts will also be approved in writing by A.I.D. prior to execution; and

(d) Consulting firms used by the Grantee for the Project but not financed under the Grant, the scope of their services and such of their personnel assigned to the Project as A.I.D. may specify, and construction contractors used by the Grantee for the Project but not financed under the Grant, shall be acceptable to A.I.D.

SECTION C.4. Reasonable Price. No more than reasonable prices will be paid for any goods or services financed, in whole or in part, under the Grant. Such items will be procured on a fair and, to the maximum extent practicable, on a competitive basis.

Article C: Procurement Provisions (Continued)

SECTION C.5. Notification to Potential Suppliers. To permit all United States firms to have the opportunity to participate in furnishing goods and services to be financed under the Grant, the Grantee will furnish A.I.D. such information with regard thereto, and at such times, as A.I.D. may request in Project Implementation Letters.

SECTION C.6. Shipping.

(a) Goods which are to be transported to the territory of the Grantee may not be financed under the Grant if transported either: (1) on an ocean vessel or aircraft under the flag of a country which is not included in A.I.D. Geographic Code 935 as in effect at the time of shipment, or (2) on an ocean vessel which A.I.D., by written notice to the Grantee has designated as ineligible; or (3) under an ocean or air charter which has not received prior A.I.D. approval.

(b) Costs of ocean or air transportation (of goods or persons) and related delivery services may not be financed under the Grant, if such goods or persons are carried: (1) on an ocean vessel under the flag of a country not, at the time of shipment, identified under the paragraph of the Agreement entitled "Procurement Source: Foreign Exchange Costs," without prior written A.I.D. approval; or on a non-U.S. flag air carrier if a U.S. flag carrier is available (in accordance with criteria which may be contained in Project Implementation Letters) without prior written A.I.D. approval; or (2) on an ocean vessel which A.I.D., by written notice to the Grantee, has designated as ineligible; or (3) under an ocean vessel or air charter which has not received prior A.I.D. approval.

(c) Unless A.I.D. determines that privately-owned United States-flag commercial ocean vessels are not available at fair and reasonable rates for such vessels, (1) at least fifty percent (50%) of the gross tonnage of all goods (computed separately for dry bulk carriers, dry cargo liners and tankers) financed by A.I.D. which may be transported on ocean vessels will be transported on privately owned United States-flag commercial vessels, and (2) at least fifty percent (50%) of the gross freight revenue generated by all shipments financed by A.I.D. and transported to the territory of the Grantee on dry cargo liners shall be paid to or for the benefit of privately owned United States-flag commercial vessels. Compliance with the requirements of (1) and (2) of this sub-section must be achieved with respect to both any cargo transported from U.S. ports and any cargo transported from non-U.S. ports, computed separately.

SECTION C.7. Insurance.

(a) Marine insurance on goods financed by A.I.D. which are to be transported to the territory of the Grantee may be

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Article C: Procurement Provisions (Continued)

financed as a Foreign Exchange Cost under this Agreement provided (1) such insurance is placed at the lowest available competitive rate, and (2) claims thereunder are payable in U.S. dollars or, as A.I.D. may agree in writing, in the currency in which such goods were financed or in any freely convertible currency. If the Grantee (or government of Grantee), by statute, decree, rule, regulation, or practice discriminates with respect to A.I.D.-financed procurement against any marine insurance company authorized to do business in any State of the United States, then all goods shipped to the territory of the Grantee financed by A.I.D. hereunder will be insured against marine risks and such insurance will be placed in the United States with a company or companies authorized to do a marine insurance business in a State of the United States.

(b) Except as A.I.D. may otherwise agree in writing, the Grantee will insure, or cause to be insured, goods financed under the Grant imported for the Project against risks incident to their transit to the point of their use in the Project; such insurance will be issued on terms and conditions consistent with sound commercial practice and will insure the full value of the goods. Any indemnification received by the Grantee under such insurance will be used to replace or repair any material damage or any loss of the goods insured or will be used to reimburse the Grantee for the replacement or repair of such goods. Any such replacement will be of source and origin of countries listed in A.I.D. Geographic Code 935 as in effect at the time of replacement, and, except as the Parties may agree in writing, will be otherwise subject to the provisions of the Agreement.

SECTION C.8. U.S. Government-owned Excess Property. The Grantee agrees that, wherever practicable, United States Government-owned excess personal property, in lieu of new items financed under the Grant, should be utilized. Funds under the Grant may be used to finance the costs of obtaining such property for the Project.

Article D: Termination, Remedies.

SECTION D.1. Termination. Either Party may terminate this Agreement by giving the other Party 30 days written notice. Termination of this Agreement will terminate any obligations of the Parties to provide financial or other resources to the Project pursuant to this Agreement, except for payment which they are committed to make pursuant to noncancellable commitments entered into with third parties prior to the termination of this Agreement. In addition, upon such termination A.I.D. may, at A.I.D.'s expense, direct that title to goods financed under the Grant be transferred to A.I.D. if the goods are from a source outside Grantee's country, are in a deliverable state and have not been offloaded in ports of entry of Grantee's country.

Article D: Termination, Remedies. (Continued)

SECTION D.2. Refunds.

(a) In the case of any disbursement which is not supported by valid documentation in accordance with this Agreement, or which is not made or used in accordance with this Agreement, or which was for goods or services not used in accordance with this Agreement, A.I.D., notwithstanding the availability or exercise of any other remedies under this Agreement, may require the Grantee to refund the amount of such disbursement in U.S. Dollars to A.I.D. within sixty (60) days after receipt of a request therefor.

(b) If the failure of Grantee to comply with any of its obligations under this Agreement has the result that goods or services financed under the Grant are not used effectively in accordance with this Agreement, A.I.D. may require the Grantee to refund all or any part of the amount of the disbursements under this Agreement for such goods or services in U.S. Dollars to A.I.D. within sixty days after receipt of a request therefor.

(c) The right under subsection (a) or (b) to require a refund of a disbursement will continue, notwithstanding any other provision of this Agreement, for three years from the date of the last disbursement under this Agreement.

(d) (1) Any refund under subsection (a) or (b), or (2) any refund to A.I.D. from a contractor, supplier, bank or other third party with respect to goods or services financed under the Grant, which refund relates to an unreasonable price for or erroneous invoicing of goods or services, or to goods that did not conform to specifications, or to services that were inadequate, will (A) be made available first for the cost of goods and services required for the Project, to the extent justified, and (B) the remainder, if any, will be applied to reduce the amount of the Grant.

(e) Any interest or other earnings on Grant funds disbursed by A.I.D. to the Grantee under this Agreement prior to the authorized use of such funds for the Project will be returned to A.I.D. in U.S. Dollars by the Grantee.

SECTION D.3. Nonwaiver of Remedies. No delay in exercising any right or remedy accruing to a Party in connection with its financing under this Agreement will be construed as a waiver of such right or remedy.

SECTION D.4. Assignment. The Grantee agrees, upon request, to execute an assignment to A.I.D. of any cause of action which may accrue to the Grantee in connection with or arising out of the contractual performance or breach of performance by a party to a direct U.S. Dollar contract with A.I.D. financed in whole or in part out of funds granted by A.I.D. under this Agreement.