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DOCUMENTS

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CREDIT NUMBER 5946-BD

**Financing Agreement**

**(Local Governance Support Project – 3 (LGSP-3))**

**between**

**PEOPLE'S REPUBLIC OF BANGLADESH**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated** *March 6* , 2017

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**CREDIT NUMBER 5946-BD**

**FINANCING AGREEMENT**

AGREEMENT dated *March 6*, 2017, entered into between PEOPLE'S REPUBLIC OF BANGLADESH ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association"). The Recipient and the Association 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 two hundred twenty one million seven hundred thousand Special Drawing Rights (SDR 221,700,000) (variously, "Credit" and "Financing"), to assist in financing the project described in Schedule 1 to this Agreement ("Project").
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 June 15<sup>th</sup> and December 15<sup>th</sup> in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is Dollar.

### **ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through LGD in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

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

- 4.01. The Additional Events of Suspension consist of the following:
- (a) the Local Government (Union Parishad) Act, 2009 has been amended, suspended, abrogated or waived so as to materially and adversely affect the ability of the Recipient and/or Eligible UPs to perform any of their obligations under the Project; and
  - (b) the Local Government (Pourashava) Act, 2009 has been amended, suspended, abrogated or waived so as to materially and adversely affect the ability of the Recipient and/or Qualified Pourashavas to perform any of their obligations under the Project.
- 4.02. The Additional Events of Acceleration consists of the following: any of the events specified in paragraphs (a) and (b) of Section 4.01 of this Agreement occurs and is continuing for a period of thirty (30) days after notice of the event has been given by the Association to the Recipient.

### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for

payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

6.01. The Recipient's Representative is the Senior Secretary/Secretary, or any Additional Secretary, or Joint Secretary/Joint Chief, Deputy Secretary/Deputy Chief, Senior Assistant Secretary/Senior Assistant Chief, Assistant Secretary/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  
Sher-e-Bangla Nagar  
Dhaka 1207  
Bangladesh

Facsimile: +88029180788/+88029180671

6.03. The Association's Address is:

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

Cable:

Telex:

Facsimile:

INDEVAS  
Washington, D.C.

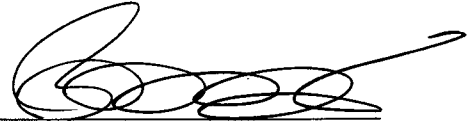
248423 (MCI)

1-202-477-6391

AGREED at Dhaka, People's Republic of Bangladesh, as of the day and year first above written.

PEOPLE'S REPUBLIC OF BANGLADESH

By



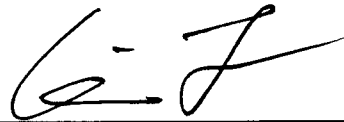
Authorized Representative

Name: <sup>Kazi</sup> Mr. Shofiqul Azam

Title: Secretary (in-charge)

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Qimiao Fan

Title: Country Director

## **SCHEDULE 1**

### **Project Description**

The objectives of the Project are to institutionalize the Union Parishad fiscal transfer system and introduce a fiscal transfer system for Pourashavas on a pilot basis.

The Project consists of the following parts:

#### **Part 1: Institutionalization of UP Fiscal Transfers**

- (a) Provision of Basic Block Grants and Performance-Based Grants to Eligible UPs to carry out Sub-projects; and
- (b) Support the institutionalization of Basic Block Grants in accordance with the UP Fiscal Transfer Institutionalization Key Steps.

#### **Part 2: Audits and Performance Assessments, and Management Information Systems**

Support the institutionalization of UP audits and performance assessments and management information systems, including: (a) strengthening the carrying out of UPs' annual financial audits and performance assessment systems; strengthening the readiness and preparation processes for annual financial statements; developing reporting, financial audits and appeal hearing guidelines; enhancing performance assessments conducted by auditors; (b) supporting the carrying out of Pourashavas' annual financial audits to facilitate their access to the Expanded Block Grants; and (c) establishing a fully functional management information system and a management information system help desk; establishing an information communication technology cell within LGD to manage the aforementioned infrastructure; and providing associated training, hardware and software.

#### **Part 3: Expanded Block Grants to Pilot Pourashavas**

Provision of Expanded Block Grants to Qualified Pourashavas to carry out Sub-projects on a pilot basis.

#### **Part 4: Capacity Development and Project Implementation Support**

Carrying out of capacity building, Project management and implementation support activities, including: (a) carrying out of capacity building activities for UP and Pourashavas' officials; (b) carrying out of training on public finance management; and (c) provision of technical assistance to district facilitators to manage and implement the Project at the district level.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. The Recipient shall maintain, throughout the period of implementation of the Project, the Project Steering Committee (“PSC”) with a mandate, composition and resources satisfactory to the Association. Without limitation on the foregoing, the PSC shall: (a) be chaired by the Secretary of LGD and comprise representatives of the relevant secretaries, among others; and (b) meet as frequently as necessary to: (i) provide strategic and policy direction on all activities under the Project; (ii) facilitate the coordination of activities under the Project; and (iii) address any obstacle during the implementation of the Project.
2. By no later than one (1) month after the Effective Date, the Recipient shall establish, and thereafter maintain throughout the period of implementation of the Project, the Project Management Unit (“PMU”) with functions and resources satisfactory to the Association, and with staff in adequate numbers and with qualifications, experience and terms of reference satisfactory to the Association. Without limitation on the foregoing, the PMU shall be headed by a full-time national Project director and be responsible for carrying out the overall management and implementation of the Project, including coordinating activities under the Project at the district level and ensuring linkages between line agencies and relevant stakeholders.

##### B. Project Operations Manuals

1. The Recipient shall: (a) by no later than April 1, 2017, update the existing UP Operations Manual in a manner satisfactory to the Association; and (b) by no later than March 1, 2018, adopt the Pourashava Operations Manual in a manner satisfactory to the Association.
2. The Recipient shall carry out: (a) Part 1 of the Project in accordance with the arrangements and procedures set out in the UP Operations Manual and (b) Part 3 of the Project in accordance with the arrangements and procedures set out in the Pourashava Operations Manual. In case of any conflict between the arrangements and procedures set out in the manuals referred to in paragraph 2 above and the provisions of this Agreement, the provisions of this Agreement shall prevail. Except as the Association may otherwise agree, the Recipient shall not amend or waive any provisions of the UP Operations Manual and/or Pourashava Operations Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.

**C. Sub-projects**

1. For purposes of Part 1 of the Project, the Recipient shall make Basic Block Grants and/or Performance-Based Grants available to Eligible UPs in accordance with eligibility criteria and procedures set out in the UP Operations Manual, including those set forth in the Annex to this Schedule. No Basic Block Grant and no Performance-Based Grant shall be eligible for financing out of the proceeds of the Financing unless and until the UP Operations Manual has been updated in a manner satisfactory to the Association as required by paragraph 1 of Section I.B of this Schedule.
2. For purposes of Part 3 of the Project, the Recipient shall make Expanded Block Grants available to Qualified Pourashavas in accordance with eligibility criteria and procedures set out in the Pourashava Operations Manual, including those set forth in the Annex to this Agreement. No Expanded Block Grant shall be eligible for financing out of the proceeds of the Financing unless and until the Pourashava Operations Manual has been adopted in a manner satisfactory to the Association as required by paragraph 1 of Section I.B of this Schedule.
3. For purposes of Parts 1 and 3 of the Project, the Recipient shall make appropriate legal and other arrangements, all satisfactory to the Association, whereby the Recipient shall provide: (a) each Eligible UP with a Basic Block Grant and/or Performance-Based Grant and/or (b) each Qualified Pourashava with an Expanded Block Grant, as the case may be, on terms and conditions satisfactory to the Association, including the following:
  - (a) the Recipient shall obtain rights adequate to protect its interests and those of the Association, including the right to:
    - (i) suspend or terminate the right of the Eligible UP or Qualified Pourashava, as applicable, to use the proceeds of a Basic Block Grant, Performance-Based Grant and/or Expanded Block Grant, as the case maybe, or obtain a refund of all or any part of the amount of a Basic Block Grant, Performance-Based Grant and/or Expanded Block Grant then withdrawn, upon the Eligible UP and/or Qualified Pourashava's failure to perform any of its/their obligations under the terms based on which the Basic Block Grant, Performance-Based Grant and/or Expanded Block Grant were provided; and
    - (ii) require each Eligible UP and/or Qualified Pourashava to:
      - (A) carry out the Sub-project with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and



social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of the proceeds of the Financing, and each Environmental Management Plan;

- (B) provide, promptly as needed, the resources required for the Sub-project;
- (C) procure the goods, works and services to be financed out of the Basic Block Grant, Performance-Based Grant and/or Expanded Block Grant in accordance with the provisions of this Agreement;
- (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the Sub-project and the achievement of its objectives;
- (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the Sub-project; and (2) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association;
- (F) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing; and of loan proceeds other than the Recipient;
- (G) enable the Recipient and the Association to inspect the Sub-project, its operation and any relevant records and documents; and
- (H) complete the Sub-project before the Closing Date.

**D. Institutionalization of UP Fiscal Transfer Key Steps**

1. For purposes of Part 1 of the Project, the Recipient shall carry out the UP Fiscal Transfer Institutionalization Key Steps in accordance with the following terms and conditions:

(a) *Use of existing UP Development Fund budget line for the institutionalization of BBG's fiscal transfers:*

By no later than July 1, 2018, the Recipient through LGD shall ensure that the existing UP Development Fund budget line reflected in the LGD's MTBF is used for the BBG fiscal transfers starting from Fiscal Year 2021-2022 onwards in a manner satisfactory to the Association;

(b) *Regulatory framework for BBGs and UP audits for fiscal year 2021-22:*

(i) By no later than January 1, 2019, the Recipient through LGD shall prepare the guidelines and/or regulations for: (i) managing the relevant BBG budget line in the LGD's ADP; (ii) disbursing the BBGs; and (iii) carrying out the financial audits and performance assessments of BBGs, in a manner satisfactory to the Association; and

(ii) By no later than March 1, 2019, the Recipient through LGD shall issue the guidelines and/or regulations referred to in paragraph (b) (i) above in a manner satisfactory to the Association;

(c) *BBG management:*

By no later than July 1, 2019, the Recipient through LGD shall: (i) prepare an action plan for maintaining an efficient and transparent system for administrating the BBGs starting from Fiscal Year 2019-2020 onwards in a manner satisfactory to the Association; and (ii) implement such action plan throughout the implementation of the Project in a manner satisfactory to the Association.

2. Except as the Association may otherwise agree, the Recipient shall not amend or waive any provisions of the UP Fiscal Transfer Institutionalization Key Steps if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the implementation of the Project.

**E. Expenditures to be Exclusively Financed with Counterpart Funds**

The Recipient shall: (a) ensure that the following expenditures are financed exclusively out of its own resources or other resources of the Recipient and not out of the proceeds of the Financing; and (b) provide, promptly as needed, the

resources needed for this purpose: (i) recurrent expenditures such as workshop allowances, civil servant's sitting allowances, cash per diems, honoraria and fuel; and (ii) vehicles.

**F. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

**G. Safeguards**

1. The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Environmental and Social Management Framework ("ESMF"), the Small Ethnic Groups Planning Framework ("SEGPF") and the relevant Safeguard Assessments and Plans.
2. Whenever an additional Safeguard Assessment and Plan shall be required for any activity under the Project in accordance with the provisions of the ESMF and/or SEGPF, the Recipient shall:
  - (a) prior to the commencement of such activity, have such Safeguard Assessment and Plan: (i) prepared in accordance with the provisions of the ESMF and/or SEGPF, as applicable; (ii) furnished to the Association for review and approval; and (iii) thereafter adopted, consulted and disclosed as approved by the Association, in a manner acceptable to the Association; and
  - (b) thereafter take such measures as shall be necessary or appropriate to ensure compliance with the requirements of such Safeguard Assessment and Plan.
3. The Recipient shall not amend, abrogate or waive, or permit to be amended, abrogated or waived, the ESMF, the SEGPF or any Safeguard Assessments and Plans, unless the Association has provided its prior approval in writing, and the Recipient has complied with the same consultation and disclosure requirements as applicable to the original adoption of the said instruments.
4. Without limitation on its other reporting obligations under this Agreement, the Recipient shall collect, compile and submit to the Association on a bi-annual basis (or such other frequency as may be agreed with the Association) consolidated reports on the status of compliance with the ESMF, the SEGPF and the Safeguard Assessments and Plans, giving details of: (a) measures taken in furtherance of the said instruments; (b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of the said measures; and (c) remedial measures taken or required to be taken to address such conditions.

5. In the event of any conflict between the provisions of the ESMF, the SEGPF or the Safeguard Assessments and Plans, and the provisions of this Agreement, the provisions of this Agreement shall prevail.
6. The Recipient shall establish, prior to the carrying out of any activities under the Project, and thereafter maintain until completion of the Project, an independent Grievance Redress Mechanism, acceptable to the Association, as per the requirements of the EMSF and the SEGPF.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators acceptable to the Association. Each Project Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty-five (45) after the end of the period covered by such report.

**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association, not later than forty-five (45) days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

**Section III. Procurement**

All goods, works, non-consulting services and consulting services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in the Procurement Regulations and the provisions of the Procurement Plan.

**Section IV. Withdrawal of the Proceeds of the Financing**

**A. General**

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
  
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

<b>Category</b>	<b>Amount of the Credit Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) (a) Goods (excluding vehicles), non-consulting services (excluding UP audits), consulting services, Incremental Operating Costs and Training Costs under the Project	22,450,000	100%
(b) UP audits	3,050,000	100% in each Fiscal Year up to and including 2018-2019  0% in each Fiscal Year thereafter
(2) Basic Block Grants (“BBGs”) under Part 1 of the Project for Fiscal Years 2016-17, 2017-18 and 2018-19	111,850,000	49.1% in each Fiscal Year up to and including Fiscal Year 2018-2019  0% in each Fiscal Year thereafter

(3) Performance-based Grants (“PBGs”) under Part 1 of the Project for:		100%
(a) Fiscal Year 2016-17 and Fiscal Year 2017-18	29,400,000	
(b) Fiscal Year 2018-19	16,050,000	
(c) Fiscal Year 2019-20	17,100,000	
(d) Fiscal Year 2020-21	18,150,000	
(4) Expanded Block Grants (“EBGs”) under Part 3 of the Project for Fiscal Years 2017-18, 2018-19, 2019-20 and 2020-21	3,650,000	50%
<b>TOTAL AMOUNT</b>	<b>221,700,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
  - (a) for payments made prior to the date of this Agreement;
  - (b) under Categories (3)(b), (c), and (d) unless the Recipient has submitted evidence, in a manner satisfactory to the Association, the action plan specified in Section I.D.1(c) of this Schedule for maintaining an efficient and transparent system for administrating the BBGs from Fiscal Year 2019-2020 onwards;
  - (c) under Category 3(c) unless the Recipient has submitted evidence, in a manner satisfactory to the Association, showing that BBGs for Fiscal Year 2019-2020 have been transferred to UPs; and

(d) under Category 3(d) unless the Recipient has submitted evidence, in a manner satisfactory to the Association, showing that BBGs for Fiscal Year 2020-2021 have been transferred to UPs.

2. The Closing Date is December 31, 2021.

**C. Other Undertakings**

By no later than four (4) months after the end of the period covered by the annual financial audits for Fiscal Year 2016-17, Fiscal Year 2017-18, Fiscal Year 2018-19 and prior to each withdrawal under Category (2) in the table in Part A of Section IV of this Schedule 2, the Recipient shall prepare and submit to the Association the respective financial audit, in a manner satisfactory to the Association, of all Eligible UPs that have received financing from the Credit to carry out Sub-projects in the course of the preceding Fiscal Year.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage) *</b>
On each June 15 <sup>th</sup> and December 15 <sup>th</sup> , commencing June 15, 2023 to and including December 15, 2054	1.5625%

\* 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. “ADP” means the Recipient’s Annual Development Plan.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
3. “Basic Block Grant” and the acronym “BBG” mean a grant to be provided to an Eligible UP under Part 1 of the Project to finance the cost of goods, works and services required to carry out a Sub-project; and “Basic Block Grants” and the acronym “BBGs” mean more than one Basic Block Grant.
4. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
5. “Eligible UP” means a UP which meets the eligibility criteria set out in the Annex to this Agreement and those referred to in the UP Operations Manual to receive Basic Block Grants and/or Performance-Based Grants under Part 1 of the Project; and “Eligible UPs” means more than one Eligible UP.
6. “Environmental and Social Management Framework” or the acronym “ESMF” means the framework of the Project, dated October 1, 2016, and duly disclosed in the Implementing Entities’ websites, setting forth the policy framework, principles, standards, processes and institutional arrangements to be applied to assess potential adverse social and environmental impacts associated with activities to be supported under the Project and the ways to avoid, minimize, mitigate or offset them, including public consultation, disclosure and reporting; as such framework may be revised, supplemented or updated from time to time with the prior agreement between the Recipient and the Association.
7. “Environmental Management Plan” and the acronym “EMP” mean each plan to be prepared under the Project in accordance with the ESMF, pursuant to Section I.G of Schedule 2 to this Agreement, each such plan in form and substance satisfactory to the Association, and defining details of measures to manage potential environmental risks and mitigate, reduce and/or offset adverse environmental impacts associated with the implementation of activities to be supported under the Project, including Sub-projects, together with adequate budget, institutional, monitoring and reporting arrangements capable of ensuring proper implementation of, and regular feedback on compliance with, its terms; as each environmental

management plan may be revised, supplemented or updated from time to time with the prior written agreement between the Recipient and the Association.

8. “Expanded Block Grant” and the acronym “EBG” mean a grant to be provided under Part 3 of the Project to a Qualified Pourashava to finance the cost of goods, works and services required to carry out a Sub-project; and “Expanded Block Grant” and the acronym “EBGs” mean more than one Expanded Block Grant.
9. “Fiscal Year” means a fiscal year of the Recipient, commencing on July 1st of a calendar year and ending on June 30rd of the subsequent calendar year.
10. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
11. “Grievance Redress Mechanism” means the system to be established and implemented by the Recipient under the Project, which shall meet the requirements set forth in the ESMF and be acceptable to the Association, be designed to track complaints regarding the Project, guide resolution of such complaints, and track and publicize resolution of such complaints, as such system may be updated from time to time by prior written agreement between the Recipient and the Association.
12. “Incremental Operating Costs” means the reasonable costs required for the day-to-day coordination, administration and supervision of Project activities, including leasing and/or routine repair and maintenance of vehicles, equipment, facilities and office premises, office supplies, utilities, consumables, communication expenses, translation, printing, photocopying and postal expenses, bank charges, advertising expenses, insurance, costs of clearing, forwarding, inspection, survey and transportation of goods, Project-related meeting expenses, Project-related travel, provided that such Operating Costs are paid to the eligible recipient through banking system (except for petty cash expenses following Recipient’s existing policy); but excluding salaries, per diem, fuel, allowances and honorarium of officials of the Recipient’s civil service and/or other sitting allowances and honorarium of any other nature.
13. “Local Government (Pourashava) Act, 2009” means the Recipient’s Act No. 58 of 2009, relating to Pourashavas, including any amendments thereto and all other decrees, directives, and guidelines related thereto or emanating therefrom.
14. “Local Government (Union Parishad) Act, 2009” means the Recipient’s Act No. 61 of 2009, relating to Union Parishads, including any amendments thereto and all other decrees, directives, and guidelines related thereto or emanating therefrom.
15. “Local Government Division” and the acronym “LGD” mean the Local Government Division within the Recipient’s Ministry of Local Government and Rural Development & Cooperatives.

16. "MTBF" means the Recipient's Medium Term Budgetary Framework.
17. "Performance-Based Grant" and the acronym "PBG" mean a grant to be provided to an Eligible UP under Part 1 of the Project to finance the cost of goods, works and services required to carry out a Sub-project and designed to reward a well-performing UP as defined in the UP Operations Manual; and "Performance-Based Grants" and the acronym "PBGs" mean more than one Performance-Based Grant.
18. "Pourashava" means an urban administrative unit in the territory of the Recipient.
19. "Pourashava Operations Manual" means the operations manual to be prepared by the Recipient, satisfactory to the Association, setting out, *inter alia*: (i) the types of activities to be carried out by Qualified Pourashavas under Part 3 of the Project; and (ii) procedures, terms, conditions and eligibility criteria for Sub-projects, to be used in the implementation of Part 3 of the Project, as the same may be amended from time to time, in consultation with, and with the concurrence of, the Association, and such term includes any annexes and schedules to the Pourashava Operations Manual.
20. "Procurement Plan" means the Recipient's procurement plan for the Project, dated November 13, 2016, and provided for under Section IV of the Procurement Regulations, as the same may be updated from time to time in agreement with the Association.
21. "Procurement Regulations" means the "World Bank Procurement Regulations for Borrowers under Investment Project Financing", dated July 1, 2016.
22. "Project Steering Committee" means the committee referred to in Section I.A.1 of Schedule 2 to this Agreement.
23. "Project Management Unit" means the unit referred to in Section I.A.2 of Schedule 2 to this Agreement.
24. "Qualified Pourashava" means a Pourashava which meets the eligibility criteria set out in the Annex to this Agreement and those referred to in the Pourashava Operations Manual to receive Expanded Block Grants under Part 3 of the Project; and "Qualified Pourashavas" means more than one Qualified Pourashava.
25. "Safeguard Assessment and Plan" means any EMP and/or SECDP prepared or to be prepared by the Recipient in accordance with the ESMF and/or SEGPF and the provisions of Section I.G of Schedule 2 to this Agreement; and "Safeguard Assessments and Plans" means more than one safeguard assessment and plan.
26. "SITC" means the Standard International Trade Classification, Revision 3 (SITC. Rev. 3 (1986)) and such other future revisions as adopted by the Recipient and agreed by the Association.

27. “Small Ethnic Groups” means, for purposes of the Project and in a generic sense, distinct, vulnerable, social and cultural groups (including tribes, minor races, ethnic sects and communities) possessing the following characteristics in varying degrees: (a) self-identification as members of a distinct indigenous cultural group and recognition of this identity by others; (b) collective attachment to geographically distinct habitats or ancestral territories in the project area and to the natural resources in these habitats and territories; (c) customary cultural, economic, social, or political institutions that are separate from those of the dominant society and culture; and (d) an indigenous language, often different from the official language of the country or region.
28. “Small Ethnic Groups Development Plan” and the acronym “SEGDP” mean each Small Ethnic Groups Development Plan acceptable to the Association and prepared on the basis of the SEGPF, detailing the specific actions, measures and policies designed to address any impact on Small Ethnic Groups and facilitate the achievement of the objectives of the SEGPF; as said plan and any annexes or schedules to such plan, may be revised from time to time with the prior written approval of the Association.
29. “Small Ethnic Group Planning Framework” or the acronym “SEGPF” means the framework of the Recipient dated August 1, 2016, setting the policies and procedures to ensure that Small Ethnic Groups affected by the Project receive culturally appropriate social and economic benefits, and if any potential adverse effects on such communities are identified, measures to ensure their effects are avoided, minimized, mitigated, or compensated, as well as the preparation of SECDPs during the implementation of the Project, as said framework may be revised from time to time with the prior written consent of the Association, and such term includes any annexes or schedules to such framework.
30. “Sub-project” means an activity or scheme meeting the criteria set out in the UP Operations Manual or the Pourashava Operations Manual, as applicable to be carried out by an Eligible UP and/or a Qualified Pourashava, as applicable, using the proceeds of a Basic Block Grant or a Performance-Based Grant under Part 1 of the Project or an Expanded Basic Grant under Part 3 of the Project.
31. “Training” means the reasonable costs required for the participation of personnel involved in training activities, seminars and workshops under the Project which have been approved by the Association in writing on annual basis, including: (a) travel, hotel, and subsistence costs for training, seminars and workshop participants provided that such allowances are paid directly to the eligible recipient using the banking system; and (b) costs associated with rental of training, seminar and workshop facilities, preparation and reproduction of training, seminar and workshop materials, costs of academic degree studies, and other costs directly related to training course or workshop preparation and implementation, but

excluding Recipient's civil service sitting allowances and honorarium of any other nature.

32. "Union Parishad" and the acronym "UP" mean the elected local government body, established under the Local Government (Union Parishad) Act, 2009 and provided for by the Constitution of the Recipient, and which, *inter alia*, is responsible, within its territorial jurisdiction, for the: (a) coordination of public service delivery and the providers thereof; (b) maintenance of public order and conflict resolution and mediation; and (c) preparation and implementation of plans relating to public services and economic development.
33. "UP Development Fund" means the fund allocated for the development of UPs under the budget code No. 5-3701-5110 of LGD.
34. "UP Operations Manual" means the operations manual to be updated by the Recipient, in a manner satisfactory to the Association, setting out, *inter alia*: (i) the types of activities to be carried out by Eligible UPs under Part 1 of the Project; and (ii) procedures, terms, conditions and eligibility criteria for Sub-projects, to be used in the implementation of Part 1 of the Project, as the same may be amended from time to time, in consultation with, and with the concurrence of, the Association, and such term includes any annexes and schedules to the UP Operations Manual.
35. "UP Fiscal Transfer Institutionalization Key Steps" means the actions set out in Section I.D.1 of Schedule 2 of this Agreement to be taken by the Recipient to institutionalize the Recipient's fiscal transfers to UPs.
36. "Upazila" means a sub-district, an administrative unit in the territory of the Recipient.

**ANNEX**

**Eligibility Criteria and Procedures for Sub-projects;  
Eligibility Criteria for Eligible UPs and Qualified Pourashavas**

1. Sub-projects shall:
- (a) be initiated by an Eligible UP and/or a Qualified Pourashava and identified as an investment activity (capital, non-capital, management, maintenance expenditures, and capacity building), acceptable to the Association, and consistent with the UP Operations Manual and/or the Pourashava Operational Manual;
  - (b) be appraised and carried out in accordance with the procedures and conditions set forth in the UP Operations Manual and/or the Pourashava Operations Manual;
  - (c) be economically and technically viable in accordance with the standards specified in the UP Operations Manual and/or the Pourashava Operations Manual;
  - (d) be in compliance with the standards and requirements set forth in the applicable laws and regulations of the Recipient relating to health, safety and environmental management, including the ESMF;
  - (e) exclude activities of a military or paramilitary nature or the purchase of items in the following SITC groups or subgroups, or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<b>Group</b>	<b>Description of Items</b>
112	Alcoholic beverages
121	Tobacco, unmanufactured, tobacco refuse
122	Tobacco, manufactured (whether or not containing tobacco substitutes)
525	Radioactive and associated materials
667	Pearls, precious and semi-precious stones, unworked or worked
718	Nuclear reactors, and parts thereof, fuel elements (cartridges), non-irradiated for nuclear reactors
728.43	Tobacco processing machinery

897	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)

- (f) exclude ineligible Sub-projects identified in the ESMF, and salaries and allowances of councilors and staff; and
  - (g) exclude Sub-projects involving land acquisition, involuntary land contribution, involuntary resettlement of local population and the use and/or pollution of international waterways as defined by the Association.
2. To be eligible for receiving a Basic Block Grant or Performance-Based Grant to carry out a Sub-project under Part 1 of the Project or an Expanded Basic Grant to carry out a Sub-project under Part 3 of the Project, an Eligible UP or Qualified Pourashava, as the case maybe, shall satisfy the eligibility criteria specified in the UP Operations Manual and/or Pourashava Operations Manual which include, without limitation, that: (a) the adoption of a resolution authorizing said UP or Pourashava to participate in the Project and carry out its obligations thereunder in accordance with the provisions of this Agreement, including those of the UP Operations Manual and/or Pourashava Operations Manual; (b) the opening of a bank account in a commercial bank with three specified individuals nominated as the account's authorized signatories; and (c) the provision to the Recipient with suitable evidence of adequate budgetary resources, together with a copy of financial audit report for the fiscal year immediately preceding the year in which it intends to commence participation in the Project, with such report containing no adverse opinion.