

No. 19908

**UNITED STATES OF AMERICA
and
BANGLADESH**

Project Grant Agreement for fertilizer distribution improvement I (with annex and financial plan). Signed at Dacca on 28 July 1978

Amendment No. 2 to the above-mentioned Agreement. Signed at Dacca on 25 June 1979

Authentic texts: English.

Registered by the United States of America on 10 June 1981.

**ÉTATS-UNIS D'AMÉRIQUE
et
BANGLADESH**

Accord de don relatif à un projet d'amélioration de la distribution d'engrais (I) [avec annexe et plan financier]. Signé à Dacca le 28 juillet 1978

Deuxième Amendement à l'Accord susmentionné. Signé à Dacca le 25 juin 1979

Textes authentiques : anglais.

Enregistrés par les États-Unis d'Amérique le 10 juin 1981.

PROJECT GRANT AGREEMENT¹ BETWEEN THE PEOPLE'S
REPUBLIC OF BANGLADESH AND THE UNITED STATES
OF AMERICA FOR FERTILIZER DISTRIBUTION IMPROVE-
MENT I

Dated: July 28, 1978

A.I.D. Project Number 388-0024

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A.I.D. Project No. 388-0024

PROJECT GRANT AGREEMENT dated July 28, 1978, between the PEOPLE'S REPUBLIC OF BANGLADESH ("Grantee" or "Government") and the UNITED STATES OF AMERICA, acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

¹ Came into force on 28 July 1978 by signature.

² For the text of the annex, see "Project Grant Agreement between the United States of America and Haiti relating to health services, signed at Port-au-Prince on 30 August 1977" in United Nations, *Treaty Series*, vol. 1229, No. I-19855.

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 herein, 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, is directed to improvement of the Grantee’s fertilizer distribution and marketing systems.

Annex 1, attached, amplifies the definition of the Project contained in this Section 2.1. Within the limits of the definition of the Project in this Section 2.1, elements of the amplified description in Annex 1 may be changed by written agreement of the authorized representatives of the Parties named in Section 8.3 without formal amendment of the Agreement.

Section 2.2. INCREMENTAL NATURE OF PROJECT. (a) It is anticipated that A.I.D.’s contribution of one hundred and fifty million U.S. Dollars (\$150,000,000) to the Project will be provided in increments, the initial one of forty-three million U.S. Dollars (\$43,000,000) being made available in accordance with Section 3.1 of this Agreement. Subsequent increments will be subject to 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. Further, both Parties should be satisfied that this Project’s basic purpose of assisting small farmer access to fertilizer is being achieved.

(b) In the event that A.I.D. does not add a contemplated increment of funding in a timely fashion, it is understood that either Party may elect to terminate this Agreement in accordance with Grant Project Standard Provisions, provided, that within the limits of then available funds committed to the Project by the Parties, the termination period may be extended beyond a period of 30 days to provide for orderly arrangements, and that each Party will do all it believes appropriate to retain and extend the benefits of Project activity which has already taken place.

(c) 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 applicable terms of this Agreement not to exceed forty-three million United States (U.S.) Dollars (\$43,000,000) (“Grant”). The Grant may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, 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.

(b) The resources provided by the Grantee for the three-year period of the Project will be not less than the equivalent of three hundred and fifty million U.S. Dollars (\$350,000,000) including costs borne on an "in-kind" basis.

Section 3.3. PROJECT ASSISTANCE COMPLETION DATE. (a) The "Project Assistance Completion Date" (PACD), which is forty-eight (48) months from the date of this Agreement, or such other date as the Parties may agree to in writing, 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.

(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 8.1 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 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. CONDITIONS PRECEDENT TO DISBURSEMENT

Section 4.1. FIRST DISBURSEMENT. Prior to the first disbursement under the Grant or to the issuance by A.I.D. of any commitment documents the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

- (a) An opinion of counsel acceptable to A.I.D. that this Agreement has been duly authorized and/or ratified by and executed on behalf of the Grantee and that it constitutes a valid and legally binding obligation of the Grantee in accordance with all of its terms;
- (b) A statement of the names of the persons holding or acting in the offices of the Grantee specified in Section 8.3 and a specimen signature of each person specified in such statement;
- (c) Assurance that budgetary allocations will be established for fiscal years 1978–79, 1979–80 and 1980–81 for the Bangladesh Agricultural Development Corporation (BADC) sufficient to carry out the Project for each year, including an undertaking to increase such allocations if required to meet the requirements of the Project;
- (d) Evidence of the intended fertilizer price structure which will prevail through FY 1978–79;
- (e) Directives establishing for Chittagong Division margin structures for each fertilizer, freedom of private sector movement of fertilizer in all except the national border area, and removal of dealer licensing requirements;

(f) Evidence of action by the Government to finance an engineering study of the best way to make operable the bulk fertilizer storage warehouses at Ghorasal and Fenchuganj Urea Factories.

Section 4.2. ADDITIONAL DISBURSEMENT. Prior to additional disbursement under the Grant, or to issuance by AID of documentation pursuant to which additional disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to AID in form and substance satisfactory to AID:

- (a) Evidence of arrival and out-turn reports and claims concerning any fertilizer under a preceding procurement financed by this project, when such fertilizer has already arrived in Bangladesh.
- (b) Establishment of the phased new system of private retail and wholesale dealers.
- (c) Action to make operable the Ghorasal and Fenchuganj bulk storage warehouses.
- (d) Signed copies of consultant contracts acceptable to AID for engineering and technical services required for the project.

Section 4.3. NOTIFICATION. When A.I.D. has determined that the conditions precedent specified in Sections 4.1 and 4.2 have been met, it will promptly notify the Grantee.

Section 4.4. TERMINAL DATE FOR CONDITIONS PRECEDENT. If all of the conditions specified in Section 4.1 have not been met within twenty (20) days from the date of this Agreement, or such later date as A.I.D. may agree in writing, A.I.D., at its option, may terminate this Agreement by written notice to the Grantee, in terms of Article D, Annex 2.

Article 5. SPECIAL COVENANTS

Section 5.1. PROJECT EVALUATION. The Parties agree to establish an evaluation program as an integral part of the Project. Except as the Parties otherwise agree in writing, the program will include annual evaluations of the Project including: (a) evaluation of progress toward attainment of the objectives of the Project; (b) identification and evaluation of problem areas or constraints which may inhibit such attainment and (c) assessment of how such information may be used to help overcome such problems, in this or other projects.

Section 5.2. IMPLEMENTATION ACTION. (a) The Government will take effective action to remove constraints to increased fertilizer use including the following constraints:

- (i) Erratic and uncertain supply from local production and import.
- (ii) Limited internal transportation and storage capability.
- (iii) Marketing constraints at the retail and wholesale levels, including inadequate financial incentive to the retail dealers and complete absence of private wholesale dealers.
- (iv) Inadequate farmer incentives.

(b) The Government will assign an effective priority to fertilizer transport, establish rationalized rate structures for fertilizer movement, and take all other necessary measures to meet fertilizer transport needs.

(c) The Government will consult with A.I.D. from time to time at the request of either with respect to the obligations accepted by the Government under this Project and any question related thereto.

(d) The Government shall make available promptly as needed, the land, funds, facilities, services, personnel and other resources, including funds for construction or acquisition of additional warehouse or storage space, which are required, in addition to the proceeds of the Grant, for carrying out the Project.

(e) The Government will endeavor to maintain a minimum in-country stock balance equal to five months supply of each required fertilizer throughout the year.

(f) The Government will contract for the feasibility study and design of fertilizer bagging facilities at Chittagong and Chalna, including economic and technical analysis of the best use of the TSP Factory facilities at Chittagong, whether it would be best to improve the facilities for TSP production, convert the factory to produce some other fertilizer, or to make partial or sole use of the facilities for fertilizer bulk imports. The Government is committed to make the best feasible use of the facilities considering all factors.

(g) The Government will cause BADC and the Bangladesh Chemical Industries Corporation (BCIC) to operate the Project in such manner as to ensure the continuing and successful achievement of the Project purpose.

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 their source and origin in the United States (Code 000 of the A.I.D. Geographic Code Book as in effect at the time orders are placed or contracts entered into for such goods or services) ("Foreign Exchange Costs"), except as A.I.D. may otherwise agree in writing, and except as provided in Section C.1(b) of Annex 2 hereto with respect to marine insurance.

Section 6.2. LOCAL CURRENCY COSTS. Disbursement pursuant to Section 7.2 will be used exclusively to finance the costs of goods and services for the Project having their source and, except as A.I.D. may otherwise agree in writing, origin in Bangladesh ("Local Currency Costs").

Article 7. DISBURSEMENT

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 of 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 Letter 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, through Letter of Credit or otherwise, for such goods or 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 the 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 through purchase of local currency by A.I.D. 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. DATE OF DISBURSEMENT. Disbursement by A.I.D. will be deemed to occur on the date on which A.I.D. makes a disbursement to the Grantee or its designee, or to a banking institution pursuant to a Letter of Commitment or Credit.

Section 7.5. 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 such funds may be converted into the currency of Bangladesh at the official rate of exchange in Bangladesh at the time the conversion is made.

Article 8. MISCELLANEOUS

Section 8.1. INVESTMENT GUARANTY PROJECT APPROVAL. The Grantee agrees that the contracts to be financed under this Agreement may be insured by the Overseas Private Investment Corporation, an agency of the United States of America.

Section 8.2. 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
Dacca, Bangladesh

Alternate address for cables:
BAHISAMPAD, Dacca, Bangladesh

To A.I.D.:

Mail Address:
U.S.A.I.D. Mission/Bangladesh
American Embassy
G.P.O. Box # 2593, Ramna
Dacca-2, Bangladesh

Alternate address for cables:
USAID, Dacca, Bangladesh

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 8.3. 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, 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. Mission/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 in Annex 1. The names of the representatives of the Grantee, with specimen signature, 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 8.4. STANDARD PROVISIONS ANNEX. A "Project Grant Standard Provisions Annex" (Annex 2) is attached to and forms part of this Agreement.

IN WITNESS WHEREOF, the Grantee 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 first above written.

The Government
of the People's Republic
of Bangladesh:

By: [Signed]
Name: A. M. A. MUHITH
Title: Secretary
External Resources Division
Ministry of Planning

The Government
of the United States of America:

By: [Signed]
Name: DAVID T. SCHNEIDER
Title: Ambassador

By: [Signed]
Name: JOSEPH S. TONER
Title: Director
U.S.A.I.D./Bangladesh

ANNEX I. PROJECT DESCRIPTION

The Government of Bangladesh has set, as one of its primary economic goals, food-grain self-sufficiency by 1985/86. Fundamental to attainment of the goal is substantially increased use of fertilizer, particularly by small farmers who have yet to benefit from the potential of high yielding variety technology.

The Project, of which this Grant is a part, consists of the manufacture of fertilizer in Bangladesh, the importation into and inland distribution within Bangladesh of necessary fertilizers and other activities related to the same purpose including the construction of fertilizer storage facilities. The total cost of meeting these needs for the 1978-79 to 1980-81 Project period is estimated to be approximately dollars 750 million equivalent for fertilizer, distribution and related costs.

During the Project period important improvements in the fertilizer distribution system will be attempted by the Government with A.I.D. support. These improvements will include an attempted minimum 15 percent per annum increase in fertilizer sales, advance fertilizer import programming, increased private sector role in fertilizer marketing, increased storage capacity, efficient operation of domestic fertilizer plants, construction of bagging facilities for bulk fertilizer imports, and general improvements in such areas as management, inventory control, finance and transportation.

Subject to availability of funds, the A.I.D. grant for dollars 150 million will provide a portion of the local currency and foreign exchange financing for the project over its three-year period. In this initial grant dollars 43 million is extended. The funds are available to assist in financing foreign exchange costs for the acquisition and importation of fertilizers and other agricultural inputs, and for foreign exchange and local currency costs of fertilizer storage construction, training, technical assistance, materials and equipment and related services as A.I.D. may agree in writing. Financing for such extends to the local and foreign exchange costs incurred in their acquisition, transportation, insurance, inspection and conduct of training. Other costs as agreed will be met by the Government, including the cost of inland distribution of the fertilizer.

The Government will take effective action to introduce in a phased manner nationwide wholesale and retail competition between private fertilizer dealers. Private dealers are here defined to include the cooperatives on an equal competitive basis with private individuals and businesses. BADC will introduce the system during the first year in the Chittagong Division. The principles of this system are as follows:

- BADC will sell only from primary distribution points and from remote and inaccessible thanas in which it can be predicted that the private sector will not come forth adequately at first. In all other thanas, BADC will maintain its warehouses as observation posts only and not sell from them unless the market price rises excessively above the administered price.
- At the primary distribution points, BADC will begin sales at reduced wholesale rates for large (wholesale) quantity fertilizer purchases. Once the fertilizer leaves the BADC warehouses, however, its resale price will be unrestricted up to the administered price to the farmer. The discount structures to prevail in Chittagong Division during the first year of the Project are as follows:
 - (a) Less than 3 Tons: 5 TK/MD
 - (b) 3 Tons and Above: 230 TK/TON
- All private individuals, companies, farmer associations, cooperatives, etc. will be permitted to purchase from all BADC warehouses. Such purchases shall be open and no restrictions shall be imposed. Instead customer records shall be maintained through the purchase invoices.
- Private movement of fertilizer will be unrestricted except in the five-mile national border area.

—An attempt will be made to develop a system whereby private dealers can obtain sufficient credit from commercial banks and the Krishi Bank. BADC will assist the dealers in obtaining bank support.

—If and when private dealers set up their own trade organization, it will receive BADC's and the Marketing Consultant's support.

It is understood that this system can work well only in a satisfactory supply situation. To the extent this system is successful, it will be extended to the entire country.

PROJECT FINANCIAL PLAN
(Source and Application of Funding—\$Million)

As of: Date of Project Agreement

Project No. 388-0024

A. For Three-Year Period of Project

Project Inputs	A.I.D. Grant			Grantee	Other	Total
	Foreign Exchange	Local Currency	Total			
Systems Improvements	2.0	0.5	2.5	0.0	0.0	2.5
Storage and Bulk Handling	2.5	24.0	26.5	10.0	0.0	36.5
Fertilizer Purchase	121.0	0.0	121.0	190.0	250.0	561.0
Operating Costs	0.0	0.0	0.0	150.0	0.0	150.0
TOTAL	125.5	24.5	150.0	350.0	250.0	750.0

B. For First Year of Project

Project Inputs	A.I.D. Grant			Grantee	Other	Total
	Foreign Exchange	Local Currency	Total			
Systems Improvements	0.3	0.2	0.5	0.0	0.0	0.5
Storage and Bulk Handling	1.0	11.5	12.5	4.0	0.0	16.5
Fertilizer Purchase	37.0	0.0	37.0	50.0	60.0	147.0
Operating Costs	0.0	0.0	0.0	36.0	0.0	36.0
TOTAL	38.3	11.7	50.0*	90.0	60.0	200.0

NOTE: \$1.00 = Tk. 15.00 (Local Currency).

* \$43 million is provided in the initial grant. The additional \$7 million will be provided subject to the availability of funds.

AMENDMENT¹ No. 2 TO PROJECT GRANT AGREEMENT BETWEEN THE PEOPLE'S REPUBLIC OF BANGLADESH AND THE UNITED STATES OF AMERICA FOR FERTILIZER DISTRIBUTION IMPROVEMENT I²

Dated: June 25, 1979

A.I.D. Grant No. 388-0024

AMENDMENT No. 2, dated June 25, 1979, between the PEOPLE'S REPUBLIC OF BANGLADESH ("Government") and the UNITED STATES OF AMERICA acting through the AGENCY FOR INTERNATIONAL DEVELOPMENT ("A.I.D.").

WHEREAS, The Government and A.I.D. entered into a Project Grant Agreement No. 388-0024, dated July 28, 1978, as amended and

WHEREAS, A.I.D. has agreed to grant the Government additional funds for the Project:

NOW THEREFORE, The Government and A.I.D. agree to amend said Project Grant Agreement as follows:

1. Article 3, Financing. Section 3.1

Delete the present Section 3.1, The Grant, and substitute the following:

"*Section 3.1.* THE GRANT. To assist the Grantee to meet the cost 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 applicable terms of this Agreement not to exceed one hundred million United States (U.S.) Dollars (\$100,000,000) ('Grant'). The Grant may be used to finance foreign exchange costs, as defined in Section 7.1, and local currency costs, as defined in Section 7.2, of goods and services required for the Project."

2. Add: "Section 4.2(e) Evidence of the intended fertilizer price structure which will prevail through FY 1979-80."

3. All other terms and conditions of the Project Grant Agreement No. 388-0024 dated July 28, 1978 as amended shall remain in full force and effect.

IN WITNESS WHEREOF, the Government and A.I.D. each acting through their respective duly authorized representatives have caused the Amendment No. 2 to be signed in their names and delivered as of the date first above written.

By: [Signed]

[Signed]

Name: Mr. A. M. A. MUHITH

Name: DAVID T. SCHNEIDER

Title: Secretary
External Resources Division
Ministry of Finance

Title: Ambassador

¹ Came into force on 25 June 1979 by signature.

² See p. 170 of this volume.