

CONFORMED COPY

CREDIT NUMBER 3434-ER

Development Credit Agreement  
(Emergency Reconstruction ProjectProject)

between

THE STATE OF ERITREA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 6, 2000

CREDIT NUMBER 3434-ER

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 6, 2000, between THE STATE OF ERITREA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the project described in Schedule 2 to this Agreement (the Project), has requested the Association to assist in the financing of the Project;

(B) Part C of the Project, described in Schedule 2 to this Agreement, will be carried out by Bank of Eritrea (BE) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to BE the proceeds of the Credit as provided in this Agreement; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement and in the Project Agreement of even date herewith between the Association and BE;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit

Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries."; and

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "MOF" means the Borrower's Ministry of Finance;

(b) "BE" means the Bank of Eritrea, the Borrower's central bank, established and operating pursuant to Proclamation No. 93/1997;

(c) "CBE" means the Commercial Bank of Eritrea, established and operating pursuant to Proclamation No. 49 dated January 31, 1994;

(d) "HCBE" means the Housing and Commerce Bank of Eritrea, established and operating pursuant to Proclamation No. 6/1991;

(e) "EDIB" means the Eritrea Development Investment Bank, established and operating pursuant to Proclamation No. 91 dated October 28, 1996;

(f) "MOLG" means the Borrower's Ministry of Local Government;

(g) "ECDF" means the Eritrea Community Development Fund, a unit established by the Borrower within its Ministry of Local Government by a Directive dated January 2, 1996, whose objective is to manage the funding of community-based projects to improve the economic and social conditions of the poor people;

(h) "the Emergency" means the extraordinary event of limited duration which, for the purposes of this agreement started in May 2000, and which was caused by the escalation of the border conflict between the Borrower and the Federal Democratic Republic of Ethiopia and by the drought;

(i) "PMU" means the Borrower's Program Management Unit, established within MOF for the purpose of implementing the Emergency Reconstruction Program;

(j) "Procurement Manual" means the manual detailing the procurement arrangements agreed between the Association and the Borrower to be utilized in the implementation of this Program;

(k) "the Program" means the Borrower's Emergency Reconstruction Program agreed with the donors and detailed in the Aide-Memoire from the Emergency Reconstruction Project's appraisal mission in September 2000;

(l) "Special Account" means the accounts referred to in Section 2.02 (b) of this Agreement;

(m) "Nakfa" means the currency of the Borrower;

(n) "PFI" or "Participating Financial Institution" means, jointly, CBE, HCBE and EDIB, to which, for the purposes of Part C. 2 of this Project, BE shall lend proceeds of the credit for re-lending to Final Beneficiaries for Subloans (as hereinafter defined);

(o) "Final Beneficiary" means, for the purposes of Part C of the Project, a private commercial enterprise legally established and operating in the territory of the Borrower, which meets the criteria agreed between the Borrower and the Association, and described in the PIP (as hereinafter defined) and to or for which a PFI has made or proposes to make a Subloan (as hereinafter defined);

(p) "Participation Agreement" means, for the purposes of Part C of this Project, the agreement between BE and a PFI through which BE shall lend proceeds of the credit for re-lending to Final Beneficiaries for Subprojects;

(q) "PIP" means, for the purposes of Part C of the Project, the Project Implementation Plan adopted by the Borrower pursuant to Section 6.01, paragraph (d) of this Agreement, containing detailed arrangements regarding the implementation of the different activities under Part C of the Project, including inter alia, the institutional responsibilities, reporting structure, review and monitoring, procurement, disbursement and financial management of Part C of the Project;

(r) "Project Agreement" means, for the purposes of Part C of this Project, the agreement between the Association and BE, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(s) "PSR Unit" means the Private Sector Reconstruction Unit, to be established within BE pursuant to paragraph 3 of Schedule 1 to the Project Agreement, for the purpose of overall implementation and monitoring of Part C of the Project;

(t) "Subloan" means a loan made or proposed to be made under Part C. 2 of this Project by a PFI to a Final Beneficiary out of the equivalent of the proceeds of the Credit relent to PFI under the Participation Agreement;

(u) "Subsidiary Agreement" means the agreement to be entered into between the Borrower and BE pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Agreement;

(v) "Financial Intermediary" and "FI" mean, for the purposes of Part D of this Project, a village credit association, a credit union or a peasant association, or any other entity engaged in lending activities to Beneficiaries and which meet the respective eligibility criteria specified in Schedule 4 to this Agreement;

(w) "Operational Manual" means, for the purposes of Part D of this Project, the manual adopted by the Borrower on January 2, 1996, containing, inter alia, criteria, procedures and guidelines for the administration, promotion, appraisal and supervision of Subprojects and Microcredit Subprojects;

(x) "Microcredit Subproject" means an economic, business or income-generating development project to be financed under Part D.2 of the Project and which complies with the eligibility criteria specified in Schedule 4 to this Agreement;

(y) "Micro Subloan" means a loan made or proposed to be made by an FI to a Beneficiary for financing a Microcredit Subproject under Part D.2 of the Project;

(z) "Micro Subloan Agreement" means an agreement to be entered into between an FI and a Beneficiary for the purpose of financing a Microcredit Subproject under Part D.2 of the Project;

(aa) "Solidarity Group" means a group of people organized for the purpose of applying for financing to implement Microcredit Subprojects under Part D.2 of the Project;

(bb) "Subsidiary Financing Agreement" means, for the purposes of Part D of this Project, any agreement entered into between ECDF and an FI pursuant to Schedule 4 to this Agreement;

(cc) "Grant" means a grant made or proposed to be made by ECDF to a Beneficiary using the proceeds of the Credit allocated to Part D.1 of the Project;

(dd) "Subproject" means a development project, under Part D.1 of the Project, which complies with the eligibility criteria specified in Schedule 4 to this Agreement;

(ee) "Subproject Agreement" means an agreement to be entered into between the ECDF and a Village Administration for the purpose of carrying out a Subproject under Part D.1 of the Project;

(ff) "Village Administration" means a locally elected council of representatives in a village or sub-zoba, established pursuant to the provisions of the Local Government Proclamation No. 86 dated April 15, 1996;

(gg) "Community Development Committee" means an elected committee recognized by the Village Administration, established under the provisions of the Local Government Proclamation No. 86 dated April 15, 1996, to represent a group of people organized for the purposes of implementing a Subproject;

(hh) "Beneficiary" means: (i) in respect of Part D.1 of the Project, a community which is represented by a Community Development Committee; and (ii) in respect of Part D.2 of the Project, a Solidarity Group or a small enterprise or an individual engaged in carrying out income-generating activities, all selected in accordance with the respective criteria specified in Schedule 4 to this Agreement; and

(ii) "Project Year" means the Borrower's fiscal year beginning January 1 each year.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to sixty-nine million three hundred thousand Special Drawing Rights (SDR 69,300,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods, works and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals made for the benefit of Final Beneficiary or a Beneficiary under a Subloan or a Microcredit Subproject and a Subproject, respectively, to meet the costs of goods, works and services required for such Subloan or a Microcredit Subproject and a Subproject, and in respect of which withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars threespecial special deposit accounts (Special Account A for Parts A, B and E.1 of the Project, Special Account B for Part C and Special Account C for Part D and E.2 of the Project) in BE on terms and conditions satisfactory to the Association deposit account. Deposits into, and payments out of, the Special Accounts shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2002, [max up to 2 to 3 years] or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent ( $3/4$  of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 1 and November 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 1 and November 1 commencing May 1, 2011, and ending November 1, 2040. Each installment to and including the installment payable on November 1, 2011, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end: (i) shall carry out the Part A, B, D and E of the Project [pursuant to the provisions of the Implementation Agreement] with due diligence and efficiency and in conformity with appropriate financial, technical, administrative, engineering and environmental practices, and shall provide promptly as needed the funds, facilities, services and other resources required for the Project; and (ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause BE to perform in accordance with the provisions of the Project Agreement all the obligations

of BE therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable BE to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance;

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement;

(c) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall assist BE in carrying out Part C of the Project in accordance with the Implementation Program set forth in Schedule 1 to the Project Agreement; and

(d) For the purposes of Part C of the Project, the Borrower shall: (i) make available part of the proceeds of the Credit to BE under a subsidiary agreement to be entered into between the Borrower and BE (the Subsidiary Agreement) under terms and conditions which shall have been approved by the Association; and (ii) exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Agreement or any provision thereof.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the sustainability of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.06. With respect to the goods under the category of eligible imports listed in paragraph 2 of Schedule 4 to this Agreement, the Borrower shall not use or permit to be used any such goods for military purposes.

#### ARTICLE IV

##### Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Parts A, B, D and E of the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each calendar year of Project implementation audited in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such calendar year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such fiscal year as so

audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the fiscal year audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

## ARTICLE V

### Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

(a) [an extraordinary situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out;

(b) BE shall have failed to perform any of its obligations under the Project Agreement;

(c) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that BE will be able to perform its obligations under the Project Agreement;

(d) the Borrower's MOLG Directive of January 2, 1996, establishing the ECDF shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ECDF to perform any of its obligations; and

(e) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution of ECDF or the suspension of its operations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified: any events specified in paragraphs (a), (b) and (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the

Borrower.

## ARTICLE VI

### Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the independent auditors referred to in Section 4.01 (b) (i) of this Agreement have been appointed, as provided in such Section and in accordance with the provisions of Section II of Schedule 3 to this Agreement, on terms of reference acceptable to the Association as provided in such Section;

(b) the Borrower has established a financial management system, in form and substance acceptable to the Association;

(c) the Subsidiary Agreement has been executed on behalf of the Borrower and BE; and

(d) the Borrower has completed and adopted the PIP for Part C of the Project in a form and substance satisfactory to the Association.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by BE, and is legally binding upon BE in accordance with its terms; and

(b) that the Subsidiary Agreement has been duly authorized or ratified by the Borrower and BE and is legally binding upon the Borrower and BE in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement, is hereby specified for the purposes of Section 12.04 of the General Conditions.

## ARTICLE VII

### Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance  
P. O. Box 895  
Asmara  
Eritrea

Telex:

583492421150

For the Association:

International Development Association





		local expenditures
	(a) Part B of the Project	12,700,000
	(b) Part D of the Project	4,240,000
(3)	Consultants Services including auditing	100% of foreign expenditures and 100% of local expenditures
	(a) Part B of the Project	1,540,000
	(b) Part C(3) of the Project	1,540,000
	(c) Part D of the Project	390,000
	(d) Part E of the Project	390,000
(4)	Subloans under Part C(2) of the Project	13,860,000 100%
(5)	Loans for PFIs under Part C(1) of the Project	7,770,000 100%
(6)	Micro Subloans under Part D of the Project	1,540,000 100%
(7)	Operating Costs	95%
	(a) Part D of the Project	770,000
	(b) Part E of the Project	770,000
(8)	Unallocated	3,450,000
	TOTAL	69,300,000

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or goods or services supplied from the territory of the Borrower; and

(c) the term "Operating Costs" means the incremental expenses incurred by the Borrower on account of the Project implementation including management and monitoring, office supplies, vehicle operation, travel and supervision costs, but excluding salaries of officials of the Borrower.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 24,255,000 may be made on account of payments made for expenditures before that date but after May 31, 2000; (b) payments made under Categories (4) and (5) of the table set forth in paragraph 1 above until the PSR unit is established in BE in accordance with terms and conditions satisfactory to the Association; (c) payments made under Categories (4) and (5) of the table set forth in paragraph 1 above for each PFI until the Participation Agreements have been executed on behalf of the BE and each CBE, HCBE and EDIB, respectively; and (d) payments made under Category (6) of the table set forth in paragraph 1 above unless the terms and conditions for the Subloans have been met under Schedule 4 and the Operational Manual.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under: (a) contracts for goods costing less than \$200,000 equivalent; (b) contracts for civil works costing less than \$200,000 equivalent; (c) contracts for consultants firms costing less than \$100,000 equivalent; (d) contracts for individual consultants costing less than \$50,000 equivalent; and (e) all operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower in: (i) rebuilding physical and social infrastructure; (ii) helping people displaced and affected by the Emergency rebuild their lives and resume their economic activities; and (iii) rehabilitating the private sector.

The Project consists of the following Parts, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives:

#### Part A: Agricultural Sector Rehabilitation

The acquisition of: (i) goods, including seeds, fertilizer, agricultural tools and animals; and (ii) tractors and machinery to support plowing and irrigation activities.

#### Part B: Infrastructure Rehabilitation

##### 1. Road Sector:

The carrying out of the: (i) reconstruction of roads and bridges damaged during the Emergency, including the Tesseney Gash bridge, Dassie-Awgaro bridge, and Kuluku Gash bridge; (ii) rehabilitation, upgrading and reshaping of roads/links around the central belt, including the Barka bridge, to provide access to settlements and camps of displaced people; (iii) construction of small bridges and culverts, and reshaping of road sections in the northern and northeastern areas of the Borrower's territory to improve access to communities affected by the Emergency; (iv) acquisition of Bailey bridge sections, vehicles, office equipment and provision of technical advisory services for Program implementation and management to the Borrower's Ministry of Public Works Infrastructure Department; and (v) strengthening of the Borrower's Ministry of Public Works Infrastructure Department capacity to carry out pre-construction investigations, feasibility studies, design work, contract documentation and construction supervision.

##### 2. Energy Sector

The rehabilitation of the Massawa Hirgigo power plant.

#### Part C: Private Sector Development

##### 1. Support to Affected Enterprises

The provision of loans to CBE, HCBE and EDIB to provide debt relief for their respective borrowers affected by the Emergency.

##### 2. Investments

Provision of Subloans through PFIs, to finance fixed investment and permanent working capital needs of private enterprises.

##### 3. Technical Assistance

Strengthening the capacity of the BE, CBE, HCBE and EDIB to carry out activities under Part C, including the provision of technical advisory services: (i) on banking regulations and banking supervision for the BE; and (ii) on operations management, international banking and management information systems/computer systems for CBE,

HCBE and EDIB.

Part D: ECDF

1. Infrastructure

Promotion, identification, preparation and implementation of community-based Subprojects and the provision of grants for the rehabilitation and development of basic social and economic infrastructure including: (i) primary health care and basic education facilities; (ii) rural water supply systems; and (iii) rehabilitation of rural feeder roads.

2. Micro-Credits

Support of the ECDF through the refinancing of: (i) loans to groups or individuals for income-generating activities (Village Banks Savings and Credit Program); and (ii) loans to groups or individuals to finance business mainly in rural areas.

Part E: Project Management

1. PMU

Supporting the management of Parts A, B and C of the Project through the provision of technical advisory services and the establishment of a monitoring system to assess progress in implementation, quality of financial management and impact of Program activities.

2. ECDF Management

Supporting the management of Part D of the Project through the provision of technical advisory services and the establishment of a monitoring system to assess progress in implementation, quality of financial management and impact of Program activities.

\* \* \*

The Project is expected to be completed by June 30, 2002.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

1. Goods and works shall be procured in accordance with: (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines); and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$300,000 equivalent or more each.

(b) Notification and Advertising

The invitation to pre-qualify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures

1. Modified ICB

Goods which the Association has agreed may be procured under contracts awarded under paragraphs 2.63 and 2.64 of the Guidelines.

2. Limited International Bidding

Goods which the Association has agreed that can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded in accordance with paragraph 3.2 of the Guidelines.

3. National Competitive Bidding

Goods estimated to cost more than \$300,000 equivalent per contract, and works estimated to cost more than \$2 million equivalent, may be procured under contracts awarded in accordance with paragraphs 3.3 and 3.4 of the Guidelines.

4. International and National Shopping

Goods estimated to cost less than \$600,000 equivalent per contract may be procured under contracts awarded on the basis of international and national shopping procedures in accordance with paragraphs 3.5 and 3.6 of the Guidelines.

5. Direct Contracting

Goods, works and commodities, which should be procured as an extension of an existing contract and should be purchased from the original supplier to be compatible with existing equipment, to be used for the rehabilitation of vital services or required for the response to natural disasters or other causes indicated in sections 1.4 and 2.4 of the Procurement Manual, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

6. Procurement from UN Agencies

Vehicles, office supplies and equipment, and agricultural inputs may be procured from UN agencies such as UNICEF, UNFPA, WHO, WFP and IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

7. Procurement of Small Works

Works estimated to cost less than \$1 million equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

8. Force Account

Works which meet the requirements consistent with paragraph 3.8 of the Guidelines, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

9. Procurement of Commodities

Commonly traded commodities may be procured through organized international commodity market or other channels of competitive procurement acceptable to the Association, in accordance with paragraph 2.65 of the Guidelines.

10. Community Participation

Where in the interest of the project sustainability, or to achieve certain specific social objectives of the project, it is desirable to call for the participation of local communities and/or non governmental organizations (NGOs), the procedures stated in section 2.6 of the Procurement Manual and consistent with paragraph 3.15 of the Guidelines shall apply.

11. Market/Auction Purchase

Purchase of a small number of animals estimated to cost less than the aggregate amount of \$100,000 equivalent may be made at auction and markets through commercial practice based on the prevailing demand and offer of the day in accordance with provisions satisfactory to the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to pre-qualify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$3 million or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract not governed by paragraph 1 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

1. Consultants' services shall be procured in accordance with: (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines); and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$300,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Under a Fixed Budget

Services for which a fixed budget can be precisely defined may be procured, in

alternative to Quality and Cost Based Selection, under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for consulting services, training and technical assistance estimated to cost less than \$300,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source selection

Services which are estimated to cost less than \$300,000 equivalent for contract, may, with the association's prior agreement, be procured in accordance with the provisions of paragraph 3.8 and 3.11 of the Consultants Guidelines.

4. Individual Consultants

Consulting services that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 1, 2 (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms for estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$300,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$100,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

1. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association not later than sixty days after the end of each calendar semester of each year of Project implementation, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the calendar semester preceding the date of said report (provided, however, that the first report to be furnished to the Association shall cover the period from June 1, 2000, through November 30, 2000, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date;

(c) review with the Association, by February 28, 2001, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter;

(d) prepare, under the terms of reference acceptable to the Association, and furnish to the Association not later than six months after the effectiveness date, an Environmental Analysis for the entire Program. The recommendations from the Environmental Analysis shall be fully adopted within 2 months after its report is issued or such later date as the Association shall establish by notice to the Borrower; and

(e) establish a Steering Committee formed by members of its Government.

## 2. Implementation under Part D of the Project:

(a) The Borrower shall, for the purposes of Part D of the Project, cause MOLG to coordinate and ECDF to implement Part D of the Project.

(b) Operational Manual

Except as the Association shall otherwise agree, in carrying out Parts D. 1 and D. 2 of the Project, ECDF shall apply the procedures and guidelines set out in the Operational Manual, and the Borrower shall not assign, amend, abrogate or waive the Manual or any provision thereof which, in the opinion of the Association, will materially or adversely affect the implementation of the Project.

(c) ECDF Management

The Borrower shall ensure that the General Manager, the Deputy General Manager and the Regional Managers of ECDF shall, at all times during the execution of the Project, have qualifications and experience satisfactory to the Association.

(d) Eligibility Criteria for Subprojects under Part D.1 of the Project:

(i) Without limitation upon the provisions of paragraph (b) above, Subprojects shall be eligible for financing out of the proceeds of the Grants only if they are determined by ECDF, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Operational Manual, to satisfy the eligibility criteria specified below and in more detail in the Operational Manual, which shall include, inter alia, the following:

(A) the Subproject shall be for social infrastructure and services, such as primary health, basic education, rural water supply, soil, water and forestry conservation and for feeder roads;

(B) the Subproject shall be initiated by a Beneficiary which shall include a village, group of villages, a sub-zoba, cluster of communities or a neighborhood in an urban area or their representing institutions;



- (C) the Subproject shall be economically, financially and technically viable in accordance with standards defined in the Operational Manual;
- (D) the Beneficiary community must provide, or unless otherwise determined under the Operational Manual, at least 10% of the estimated Subproject costs in the form of cash, materials, labor and other services; and
- (E) the Subproject shall be in compliance with the standards set forth in the applicable laws and regulations of the Borrower relating to health, safety and environmental protection.

(ii) Terms and Conditions for Subprojects:

In financing Subprojects, the Borrower shall enter into a Subproject Agreement with a Village Administration or other appropriate administrative institutions legally constituted under the Local Government Proclamation No. 86, dated April 15, 1996. The terms and conditions of the Subproject Agreement shall include provisions pursuant to which:

- (A) the Community Development Committee shall be responsible for Subproject implementation;
- (B) each Community Development Committee shall be responsible for implementing the Subproject in accordance with the provisions of the Subproject Agreement and the Operational Manual, with due diligence and efficiency in accordance with sound technical, financial, environmental and managerial standards, and for maintaining adequate records;
- (C) each Community Development Committee shall have the obligation to report to ECDF on the progress made in the implementation of the Subproject;
- (D) ECDF shall have the right to obtain all such information as ECDF or the Association shall reasonably request regarding Subproject implementation, administration, operations and the financial condition of the Community Development Committee and the benefits to be derived from the Subproject;
- (E) the goods, civil works and services to be financed out of the proceeds of the Grants for Subprojects shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and
- (F) ECDF shall have the right to suspend or terminate the right of the Community Development Committee to use the proceeds of the ECDF Grants for a Subproject upon failure by any such Community Development Committee to perform any of its respective obligations under the Subproject Agreement.

(e) Eligibility Criteria for Microcredit Subprojects

- (i) Micro Subloans shall be made to Solidarity Groups consisting of individuals who have demonstrated a capacity to save for a minimum of at least three months. Such Microcredit Subprojects shall aim at improving the economic status and livelihood of Beneficiaries. In addition, individual or community-based Micro Subloans will be made for the financing of income-generating or employment-generating activities.
- (ii) For the purpose of carrying out Part D. 2 of the Project, the Borrower shall cause ECDF to:
  - (A) re-lend to the FIs the equivalent of the proceeds of the Credit allocated from time to time to Category (6) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under Subsidiary Financing Agreements to be

entered into between ECDF and each such FI, under terms and conditions which shall have been approved by the Association and which shall include, without limitation, those set forth in the Annex to this Schedule;

- (B) monitor the overall execution of said Part of the Project and the carrying out by the FIs of their undertakings pursuant to their respective Subsidiary Financing Agreements in accordance with policies and procedures satisfactory to the Association;
- (C) take, or cause to be taken, all action necessary or appropriate on its part to enable the FIs to perform, in accordance with the provisions of their respective Subsidiary Financing Agreements, all the obligations of the FIs therein set forth, and not take, or permit to be taken, any action which would prevent or interfere with such performance; and
- (D) exercise its rights under the Subsidiary Financing Agreements in such manner as to protect the interests of the Association and the Borrower and to accomplish the purposes of the Credit and, except as the Association shall otherwise agree, not assign, amend, abrogate or waive any such Agreement or any provision thereof.

#### 4. Midterm Review

The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the Performance Indicators specified in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) carry out, jointly with the Bank, not later than 12 months after effectiveness date, a Midterm Review of the Project, which shall cover, inter alia: (i) progress made in meeting the Project's objectives; and (ii) overall Project performance as measured against Performance Indicators;

(c) at least three (3) weeks prior to the Midterm Review, furnish to the Association a report describing the status of the items listed in paragraph (a) above and of Project implementation generally; and

(d) not later than four (4) weeks after the Midterm Review, prepare an action program, acceptable to the Association, for further implementation of the Project having regard to the findings of the Midterm Review and, thereafter, implement such action program.

#### SCHEDULE 5

##### Special Account

#### 1. For the purposes of this Schedule:

(a) the term "eligible Categories" means the Categories (1), (2), (3), (4), (5), (6) and (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Parts A, B, C and E.1 of the Project and Categories (1), (2), (3), (6) and (7) in respect of Parts D and E. 2 of the Project;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods required for Parts A, B, D and E of the Project and to be financed out of the proceeds of the Credit allocated to the eligible Category in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$3,500,000 in respect of the Special Account A for Parts A, B and E.1 of the Project, an amount equivalent to \$1,500,000 in respect of the Special Account B for Part C of the Project and an amount equivalent to \$1,000,000 in respect to the Special Account C

for Parts D and E.2 thereof to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the respective Special Accounts shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Accounts have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Accounts shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the respective Special Accounts of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Accounts such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the respective Special Accounts, the Borrower shall furnish to the Association requests for deposits into the respective Special Accounts at such intervals, as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Accounts such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Accounts for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the eligible Category, and in the equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the respective Special Accounts, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the respective Special Accounts:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Sections 4.01 (b) (ii) or 4.02 (b) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Sections in respect of the audit of the records and accounts for the respective Special Accounts;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the Special Account A for Parts A, B and E.1 of the Project, Special Account B for Part C of the Project and Special Account C for Parts D and E. 2 of the Project, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts A, B and E.1, Part C, and Parts D and E.2 of the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for Parts A, B and E.1, Part C, and Parts D and E. 2 of the Project shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the respective Special Accounts: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the respective Special Accounts (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the respective Special Accounts shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the respective Special Accounts will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the respective Special Accounts.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

#### SCHEDULE 6

##### Performance Indicators

The following indicators have been agreed to monitor the performance of the program:

##### 1. Outcome Indicators

(a) Increase in socio-economic indicators among targeted communities from base-line data collected through the welfare monitoring survey (Stage I of the ERP Monitoring and Evaluation plan).

(b) Reduction in the number of displaced households.

(c) Increase in foreign reserves and export levels.

##### 2. Output Indicators

(a) Number of beneficiaries reached, divided into: (i) households, and (ii) private enterprises.

(b) Number of infrastructure rehabilitated (i.e. roads, bridges, power installations, schools, health centers, private housing, public buildings and large-scale infrastructure).

(c) PFIs comply with prudential requirements set by Bank of Eritrea and adhere to their medium-term strategic plan.

(d) Disbursement follows schedule; procurement follows procurement plan and budget.

(e) 100% of subprojects are technically appropriate and sustainable.

(f) Financial statements and reports (e.g. auditing reports, mid-term reviews, action plan etc.) are produced on time by PMU.

