

CONFORMED COPY

CREDIT NUMBER 2478 ET

Project Agreement

(Recovery and Rehabilitation Project for Eritrea)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

PROVISIONAL GOVERNMENT OF ERITREA

Dated April 7, 1993

CREDIT NUMBER 2478 ET

PROJECT AGREEMENT

AGREEMENT, dated April 7, 1993, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and the PROVISIONAL GOVERNMENT OF ERITREA (PGE).

WHEREAS: (A) by the Development Credit Agreement of even date herewith between Ethiopia (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to eighteen million one hundred thousand Special Drawing Rights (SDR 18,100,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that PGE agrees to undertake such obligations toward the Association as are set forth in this Agreement;

(B) by a subsidiary loan agreement to be entered into between the Borrower and PGE, the proceeds of the Credit provided for under the Development Credit Agreement will be relented to PGE on the terms and conditions set forth in the Subsidiary Loan Agreement; and

WHEREAS PGE, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) "PMU" means the Program Management Unit referred to in Section 2.01 (c) of this Agreement;

(b) "Steering Committee" means the Steering Committee referred to in Section 2.01 (d) of this Agreement;

(c) "CRFU" means the Community Rehabilitation Fund Unit referred to in Section 2.01 (e) of this Agreement; and

(d) "DEDC" means the Department of Economic Development and Cooperation of PGE.

## ARTICLE II

### Execution of the Project

Section 2.01. (a) PGE declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and procurement practices, and shall provide, or cause to be provided, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Association and PGE shall otherwise agree, PGE shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

(c) PGE shall continue to maintain the Program Management Unit (PMU) established and operating in PGE's Department of Economic Development and Cooperation with functions and an adequate number of professionally qualified key staff satisfactory to the Association.

(d) PGE shall maintain, until completion of the Project, the Steering Committee chaired by Secretary, Department of Economic Development and Cooperation, which shall be responsible for the general oversight of the Project. The Steering Committee shall include the Secretary of Finance and the Head of PMU.

(e) PGE shall continue to maintain the Community Rehabilitation Fund Unit (CRFU) established and operating in PGE's Office of Local Government in the Office of the Secretary General with functions and an adequate number of professionally qualified key staff satisfactory to the Association.

Section 2.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

Section 2.03. PGE shall carry out the obligations set forth in Sections 9.03 through 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

Section 2.04. PGE shall duly perform all its obligations under

the Subsidiary Loan Agreement. Except as the Association shall otherwise agree, PGE shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Loan Agreement or any provision thereof.

Section 2.05. (a) PGE shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Loan Agreement, and other matters relating to the purposes of the Credit.

(b) PGE shall promptly inform the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by PGE of its obligations under this Agreement and under the Subsidiary Loan Agreement.

Section 2.06. (a) PGE and the Association agree to undertake not later than March 31, 1994, a review of the progress achieved in carrying out the Project, based on indicators satisfactory to the Association and pursuant to the provisions of this Agreement; (b) PGE shall without derogation or restriction upon any provision of this Agreement promptly take such remedial or other action satisfactory to the Association as may be required by the results of the said review.

Section 2.07. PGE shall ensure that the proceeds of the Credit made available to public and private enterprises participating in the Project shall be at the same exchange rate, and this rate shall be the same as the rate at which foreign exchange is made available to public and private enterprises from sources other than the proceeds of the Credit.

### ARTICLE III

#### Financial Covenants

Section 3.01. (a) PGE shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of PGE responsible for carrying out the Project or any part thereof.

(b) PGE shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section for each six-month period (a semester) of the fiscal year audited, in accordance with appropriate auditing principles 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 semester, the 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 said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

Section 3.02. (a) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, PGE shall:

- (i) maintain or cause to be maintained in accordance with sound accounting practices, records and accounts reflecting such expenditures;

- (ii) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained 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; and
  - (iii) enable the Association's representatives to examine such records.
- (b) PGE shall:
- (i) have the records and accounts referred to in paragraph (a) (i) of this Section and those for the Special Account for each six-month period (a semester) of the fiscal year audited, in accordance with appropriate auditing principles 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 semester the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested, including a separate opinion by said auditors as to whether the statements of expenditure submitted during such semester, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals; and
  - (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

#### ARTICLE IV

Effective Date; Termination;  
Cancellation and Suspension

Section 4.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 4.02. This Agreement and all obligations of the Association and of PGE thereunder shall terminate on the date on which the Development Credit Agreement shall terminate in accordance with its terms.

Section 4.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

#### ARTICLE V

Miscellaneous Provisions

Section 5.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telegram, cable, telex or radiogram to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. The addresses so specified are:

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (RCA)  
82987 (FTCC)  
64145 (WUI) or  
197688 (TRT)

For PGE:

Department of Economic Development  
and Cooperation  
P.O. Box 895  
Asmara, Eritrea

Telex:

117947

Section 5.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of PGE, or by PGE on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by the Secretary for Economic Development and Cooperation or such other person or persons as PGE's Secretary for Economic Development and Cooperation shall designate in writing, and PGE shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 5.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox  
Regional Vice President  
Africa

PROVISIONAL GOVERNMENT OF ERITREA

By /s/ Hagos G. Hiwet  
Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I: Procurement of Goods and Works

Part A: International Competitive Bidding

1. (a) Except as provided in Part C hereof, goods shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines), subject to the following modifications:

(i) Paragraph 2.8 of the Guidelines is deleted and the following is substituted therefor:

"2.8 Notification and Advertising

The international community should be notified in a timely manner of the opportunity to bid. This will be done by advertising invitations to apply for inclusion in a bidder's invitation list, to apply for prequalification, or to bid in at least one of the following forms:

- (A) a notice in the United Nations publication, Development Business; or
- (B) a notice to local representatives of countries and territories referred to in the Guidelines that are potential suppliers of the goods required; or
- (C) an advertisement in a newspaper, periodical or technical journal of wide technical circulation."

(ii) The following is added at the end of paragraph 2.21 of the Guidelines:

"As a further alternative, the bidding documents may require the bidder to state the price in a single currency widely used in international trade and specified in the bidding documents."

(b) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in bid evaluation.

2. With respect to each contract referred to in paragraph 1 of this Schedule, PGE shall furnish to the Association, prior to the delivery to the Association of the first application for withdrawal of funds from the Credit Account in respect of such contract, two conformed copies of such contract, together with the analysis of the respective bids and recommendations for award, a description of the advertising and tendering procedures followed and such other information as the Association shall reasonably request. Where payment under a contract are to be made out of the proceeds of the Special Account, such copies together with the other information required to be furnished to the Association pursuant to this paragraph shall be furnished to the Association as part of the evidence required under paragraph 4 of Schedule 4 to the Development Credit Agreement.

3. Goods to be procured through international competitive bidding shall be exempted from pre-shipment price inspection by a third party.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Eritrea may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and

paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. The following items may be procured under contracts awarded through limited international shopping procedures on the basis of evaluation and comparison of bids obtained from at least three qualified suppliers eligible under the Guidelines and in accordance with procedures set forth in Sections I and II of the Guidelines excluding paragraphs 2.8, 2.9, 2.55, 2.56 thereof):

- (i) industrial inputs for Part A (ii) of the Project estimated to cost the equivalent of \$500,000 or less per contract, up to an aggregate amount not exceeding \$4,000,000 equivalent; and
- (ii) vehicles and office supplies for Part A (i) and (iv) and Part D of the Project estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount not exceeding \$1,260,000 equivalent.

2. (a) The following items may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association:

- (i) civil works for Part B of the Project up to an aggregate amount not exceeding \$660,000 equivalent;
- (ii) civil works for Part C of the Project estimated to cost the equivalent of \$70,000 or less up to an aggregate amount not exceeding \$300,000 equivalent.

(b) Rehabilitation of road maintenance equipment under Part B of the Project estimated to cost the equivalent of \$150,000 or less, may be procured through direct negotiation with original suppliers of the equipment on the basis of unit costs satisfactory to the Association.

3. Construction materials for Part C of the Project estimated to cost the equivalent of \$20,000 or less per contract, up to an aggregate amount not exceeding \$100,000 equivalent, may be procured through local shopping procedures satisfactory to the Association.

4. Specialized and proprietary items for Part A (ii) of the Project, estimated to cost up to an aggregate amount not exceeding \$400,000 equivalent, may be purchased directly under negotiated contracts with original suppliers eligible under the Guidelines, in accordance with procedures satisfactory to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for raw materials, goods, and equipment estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures

shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to paragraph 3 of said Appendix shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to the Development Credit Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

## Section II: Employment of Consultants

1. In order to assist PGE in carrying out the Project, PGE shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines).

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior review or approval by the Association of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior review by the Association shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

## SCHEDULE 2

### Implementation Program

1. Implementation. The Program Management Unit (PMU) in the DEDC will be responsible for the coordination of Project implementation. The Sector Departments of PGE will be responsible for the implementation of components of the Project within their respective areas of competence. A Steering Committee under the chairmanship of the Secretary of DEDC will oversee the carrying out of the Project. A Procurement Committee under the chairmanship of the head of PMU, and consisting of technical specialists from the concerned Sector Departments of PGE, will deal with procurement matters.

2. Community Rehabilitation Fund. The Community Rehabilitation Fund will be managed by the Community Rehabilitation Fund Unit (CRFU) established in the Office of Local Government (OLG) of PGE. CRFU will screen project proposals presented by Local Project Committees set up by local communities. CRFU will assist in the preparation of project proposals documentation, agree on implementation arrangements for approved projects and provide other types of technical support and training. Local Project Committees will be responsible for collecting community contributions to projects resource requirements. A Committee, consisting of the Secretary of OLG, the Head of the Local Government Affairs Office of OLG, and the Coordinator of CRFU, will oversee the activities of CRFU and be responsible for the selection of project proposals.

3. Reporting. PMU will be responsible for monitoring the progress of the Project and for preparing quarterly, and semi-annual and annual consolidated progress report on the carrying of the Project. Progress reports will be submitted to the Steering Committee at the end of each quarter. CRFU will provide PMU with quarterly reports on



the activities of the Community Rehabilitation Funds.

