

CONFORMED COPY

CREDIT NUMBER 2478 ET

Development Credit Agreement

(Recovery and Rehabilitation Project for Eritrea)

between

ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 7, 1993

CREDIT NUMBER 2478 ET

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated April 7, 1993, between ETHIOPIA (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, has requested the Association to assist in the financing of the Project;

(B) the Project will be carried out by the Provisional Government of Eritrea (PGE) and the Borrower will make available to PGE 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 PGE;

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, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement.

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

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

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

(c) "PGE" means the Provisional Government of Eritrea, established pursuant to Proclamation No. 23/92 dated May 22, 1992;

(d) "Project Agreement" means the agreement between the Association and PGE, 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; and

(e) "PMU" means the Program Management Unit referred to in Section 2.01 (c) of the Project Agreement.

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 this Development Credit Agreement, an amount in various currencies equivalent to eighteen million one hundred thousand Special Drawing Rights (SDR 18,100,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 1995, 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 cancelled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or 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 payment 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 per cent (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 February 15 and August 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 15 and August 15 commencing August 15, 2003, and ending February 15, 2033. Each installment to and including the installment payable on February 15, 2013, 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. The Secretary of Finance of PGE is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V 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, without any limitation or restriction upon any of its other obligations under this Development Credit Agreement, shall not take or permit to be taken any action which

would prevent or interfere with PGE's performance of its obligations under the Project Agreement.

(b) The Borrower shall relend the proceeds of the Credit to PGE under a subsidiary loan agreement to be entered into between the Borrower and the PGE, under terms and conditions which shall have been approved by the Association including provisions in the Subsidiary Loan Agreement requiring repayment of the principal amount of the Credit relent to PGE and payment of service charge and commitment charge by PGE on the same terms and conditions as apply to the Borrower with respect to the Credit.

(c) The Borrower shall exercise its rights under the Subsidiary Loan 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 Loan Agreement or any provision thereof.

Section 3.02. 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 the Project Agreement.

Section 3.03. The Borrower and the Association hereby agree that 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) shall be carried out by PGE pursuant to Section 2.03 of the Project Agreement.

ARTICLE IV

Remedies of the Association

Section 4.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) PGE shall have failed to perform any of its obligations under the Project Agreement; and

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

Section 4.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 5.01 (a) of this Agreement shall occur.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of this Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Subsidiary Loan Agreement has been executed on behalf of the Borrower and PGE.

Section 5.02. 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 PGE, and is legally binding upon PGE in accordance with its terms; and

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

Section 5.03. 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 VI

Representatives of the Borrower; Addresses

Section 6.01. Except as provided in Section 2.09 of this Agreement, 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 6.02. 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 1905
Addis Ababa
Ethiopia

Cable address:	Telex:
Addis Ababba	21368

For the Association:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	248423 (RCA) 82987 (FTCC) 64145 (WUI) or 197688 (TRT)

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.

ETHIOPIA

By /s/ Berhane G. Christos
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

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

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil Works under Part B of the Project	450,000	50%
(2) Equipment, materials, vehicles, including replacement and spare parts under:		100% of foreign expenditures
(a) Part A (i), (iii) and (iv) and B of the Project	8,500,000	
(b) Part A (ii) of the Project:		
(i) Public Sector	6,400,000	
(ii) Private Sector	650,000	
(c) Part D of the Project	100,000	

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(3) Consultants' services and training under Part B of the Project	200,000	100%
(4) Goods and work under under Part C of the Project	720,000	100% of foreign expenditures and 80% of local expenditures
(5) Unallocated	1,080,000	
TOTAL	18,100,000 =====	

2. For the purposes of this Schedule, 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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made: (a) in respect of payments made for expenditures prior to the date of this Agreement; (b) in respect of all payments, unless the Association has received satisfactory evidence that fully functioning accounting systems have been put in

place at the PMU; and (c) in respect of Category (4), unless the Association has received satisfactory evidence that detailed operating/implementation guidelines for the Community Rehabilitation Fund, including selection criteria for project proposals, have been adopted by PGE.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist PGE in rehabilitating, reconstructing, maintaining and operating priority sectors of Eritrea's economy.

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

Part A: Importation of Goods

Importation of goods described in Schedule 3 to this Agreement for the following sectors, namely:

- (i) the Agricultural Sector;
- (ii) the Industrial Sector;
- (iii) the Roads Sector; and
- (iv) the Power Sector.

Part B: Infrastructure Rehabilitation

Rehabilitation of roads/bridges, and improvement of road depots, and repair of road maintenance equipment.

Part C: Community Rehabilitation Fund

Financing, through matching grants to local communities, of activities to rehabilitate basic social and economic infrastructures in the areas of, inter alia, health, education, natural resources management, and small transportation infrastructures.

Part D: Program Management Unit (PMU)

Strengthening of PMU's capacity to carry out the Project.

* * *

The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Goods referred to in Part A of the Project and to be financed out of the proceeds of the Credit

- .Irrigation pumps
- .Tractors
- .Lowbed trail
- .Vehicles
- .Office equipment
- .Telecommunication equipment
- .Soya flour, milk powder, yeast and sodium
- .Bicarbonate
- .Sugar, wheat
- .Egg powder, glucose, coffee
- .Bleaching earth, cotton seed, caustic soda, nickel
- .Catalyst
- .Essences, additives, concentrates, citric acid, vanilla,
- .tartar color

- .Plastic and can materials, wrapping paper, packing
- .Materials
- .Lint cotton, polyester yarn, polyester viscose, acrylic
- .yarn, nylon yarn, wool, acrylic and wool waste
- .Jute and kenaf
- .Dyestuffs and chemicals, chrome and chemicals
- .Natural, thermoplastic and synthetic rubbers
- .Sewing thread and cones
- .Lining and reinforcement
- .Zipper, plastic strips and bands, upper felt
- .Aluminum rod, circle and sheet, electrodes, lockers, handles, bolts and nuts
- .Cast iron ingot; pig iron, steel billets and bars, cold and hot rolled steel sheets and sections
- .Steel coils
- .Galvanized sheets and wires
- .Zinc and ingots, tin plate, plastic sheet and roll
- .Paint, glue, frits, varnish
- .Sponge, Synthetic leather, plastic sheet and roll
- .Wood, chip wood, plywood, formica, hard board
- .Engine and chassis
- .Mirror and glass sheet
- .Switches, breaker, filter papers, gasket, electrode, carbon coke
- .Refractory bricks
- .Fatty acids and other soap making agents
- .Paper pulp, tissue paper
- .Sole, glue, molds, canvas, elastic lace, elastic yarn
- .Resins, PVC, polythenes, polyethylene, polyurethane, and chemicals; chemical malt, molasses, cork, filter paper
- .Footwear outers and lining, synthetic upper cover for shoe, duban, bergamode
- .Ball point pen accessories
- .Grinding ball, paper bags, paraffin wax
- .Cardboard, craft paper, packing materials
- .Printing ink, printing chemicals, paper, printing plates
- .Spare parts and equipment for food processing industry
- .Beverage making industry
- .Textile industry
- .Leather and leather product industry
- .Non-metallic (including Cement industry and ceramics industry)
- .Printing machinery
- .Chemical processing industry
- .Metal working and engineering industry
- .Road maintenance equipment, tools and materials
- .Spare parts and replacement parts for diesel generators
- .Purifiers
- .Closed-circuit cooling radiators for generators
- .Transmission lines poles, cross arms and conductors
- .Diesel generators
- .Vehicles
- .Radio communication equipment, electric meters and tools
- .Computers

SCHEDULE 4

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in

respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account 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 Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for a deposit or deposits 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 Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account 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 Special Account 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 Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, 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 Special Account:

(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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to

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 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 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 Special Account: (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 Special Account (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 Special Account 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 Special Account 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 Special Account.

(d) Refunds to the Association made pursuant to paragraph 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.

