

CONFORMED COPY

CREDIT NUMBER 2161 ET

(Second Addis Ababa Urban Development Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

HOUSING AND SAVINGS BANK

Dated August 13, 1990

CREDIT NUMBER 2161 ET

PROJECT AGREEMENT

AGREEMENT, dated August 13, 1990, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and HOUSING AND SAVINGS BANK (HSB).

WHEREAS (A) by the Development Credit Agreement of even date herewith between People's Democratic Republic of Ethiopia (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to twenty-seven million one hundred thousand Special Drawing Rights (SDR 27,100,000), on the terms and conditions set forth in the Development Credit Agreement, but only on condition that HSB agree 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 HSB, part of the proceeds of the credit provided for under the Development Credit Agreement will be made

available to HSB on the terms and conditions set forth in said
Subsidiary Loan Agreement; and

WHEREAS HSB, 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.

ARTICLE II

Execution of the Project

Section 2.01. HSB 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 Parts A.2 and B.2 of
the Project with due diligence and efficiency and in conformity with
appropriate administrative, financial, and banking practices, and
shall provide, or cause to be provided, promptly as needed, the
funds, facilities, services and other resources required for the
Project.

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 3 to the Development
Credit Agreement.

Section 2.03. HSB 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 this Agreement and Parts A.2 and B.2 of the Project.

Section 2.04. HSB shall duly perform all its obligations under
the Subsidiary Loan Agreement. Except as the Association shall
otherwise agree, HSB 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) HSB shall, at the request of the Associa-
tion, 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) HSB 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 HSB of its obligations under this
Agreement and under the Subsidiary Loan Agreement.

Section 2.06. In carrying out Part A.2 of the Project, HSB
shall:

(a) extend sub-loans to individuals, cooperatives and self
help groups for construction of houses in accordance with the
eligibility criteria and terms and conditions of sub-loans set out
in Schedule 1 to this Agreement; and

(b) not later than December 31, 1990, enter into an
agreement with AAAR employing AAARPIO to manage HSB's bulk purchase
of locally unavailable building materials.

Section 2.07. In carrying out Part B.2 of the Project, HSB shall extend sub-loans to homeowners in the Kebeles to finance house improvements in accordance with the eligibility criteria and terms and conditions acceptable to the Association.

ARTICLE III

Management and Operations of HSB

Section 3.01. HSB shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and banking practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. HSB shall take out and maintain with responsible insurers, or make other provisions satisfactory to the Association for, insurance against such risk and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

Section 4.01. (a) HSB shall maintain records and accounts adequate to reflect in accordance with sound accounting practices its operations, resources and expenditures of HSB in respect of Parts A.2 and B.2 of the Project (Project Accounts).

(b) HSB shall:

- (i) have its records, accounts and financial statements (balance sheets, statements of income and expenses and related statements) including the Project Accounts and the Special Account for each 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 nine months after the end of each such year (A) certified copies of its financial statements and the Project Accounts for such year as so audited, and (B) 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, accounts and financial statements as well as the audit thereof, as the Association shall 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, HSB 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;
- (iii) enable the Association's representatives to examine such records; and

- (iv) ensure that such records and accounts are included in the annual 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.

Section 4.02. In order to improve its financial condition and reduce the level of bad debts, HSB shall continue to implement an action program, acceptable to the Association, with the objective of reducing the level of arrears on its non-nationalized mortgage portfolio to less than 3% of the related outstanding mortgage balances.

Section 4.03. HSB shall continue to: (a) carry out annual reviews of the quality of its mortgage portfolio; and (b) set aside regular annual provisions for bad debts.

ARTICLE V

Effective Date; Termination;
Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of HSB thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date 26 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify HSB of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. 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:

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

For HSB:

Housing and Savings Bank
P.O. Box 3480
Addis Ababa
Ethiopia

Cable address:

HOUSE BANK
Addis Ababa

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of HSB, may be taken or executed by the General Manager of HSB or such other person or persons as the General Manager shall designate in writing, and HSB shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. 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/ Ismail Serageldin
Acting Regional Vice President
Africa

HOUSING AND SAVINGS BANK

By /s/ Girma Amare
Authorized Representative

SCHEDULE 1

Eligibility Criteria, Terms and Conditions of
Sub-Loans for House Construction (Section 2.06)

Terms and Conditions

1. HSB shall extend sub-loans to cooperatives and individuals for residential houses at an initial interest rate of 4.5% per annum for cooperatives and 7% per annum for individuals; all such sub-loans to be repaid over 25 years with a grace period of one year on repayment of principal. The interest rate may be varied by the Borrower from time to time.

Beneficiary Selection Criteria for:

A. Residential Houses in Addis Ababa

1. Beneficiaries shall:

- (a) be age 18 or over;
- (b) show willingness to participate in a self-help program, preferably in a cooperative arrangement;
- (c) have a reasonably regular formal household monthly income (either salaried or licensed self-employed) of-
 - up to Birr 165 or about 50th percentile of the 1988 urban income distribution for about 20% of the units (cores),
 - up to Birr 220 or about 70th percentile of the 1988 urban income distribution for about 50% of units (cores + 1 room), and
 - about Birr 300 for about 30% of the units (cores + 3 rooms);
- (d) not own any other residential property; and
- (e) meet all other HSB standard requirements (e.g., insurance, mortgage redemption, etc.);

2. The housing loan repayment plus plot development charge and land lease charge will not exceed 25% of monthly household income;

B. Residential Houses in Akaki

1. Beneficiaries shall:

- (a) be age 18 or over;
- (b) be willing to participate in a self-help program, preferably in a cooperative arrangement;
- (c) have a reasonably regular formal household monthly income (either salaried or licensed self-employed) of-
 - up to Birr 195 or about 50th percentile of the 1988 urban income distribution for about 20% of the units (cores),
 - up to Birr 235 or about 70th percentile of the 1988 urban income distribution for about 50% of units (cores + 1 room), and
 - about Birr 305 for about 30% of the units (cores + 3 rooms);
- (d) not own any other residential property; and
- (e) meet all other HSB standard requirements (e.g., insurance, mortgage redemption, etc.).

2. The housing loan repayment plus plot development charge and land lease charge will not exceed 25% of monthly household income.

