

**CONFORMED COPY**

**CREDIT NUMBER 3641 ER**

# **Development Credit Agreement**

**(Emergency Demobilization and Reintegration Project)**

**between**

**THE STATE OF ERITREA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated May 25, 2002**

**CREDIT NUMBER 3641 ER**

## **DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated May 25, 2002, between THE STATE OF ERITREA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated November 11, 2000, describing the Borrower's program of actions, objectives and policies designed to carry out its demobilization and reintegration program (hereinafter called the Program) and declaring

the Borrower's commitment to the execution of the Program, and requesting assistance from the Association during the execution of the Program;

(B) 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: (i) assist in the financing of the Project (which forms part of the Program); and (ii) assist in the support of the Program during the execution thereof;

(C) the Borrower intends to obtain from various Participating Partners (as hereinafter defined) grants and loans to assist in financing the Program; and

(D) on the basis, inter alia, of the foregoing, the Association has decided in support of the Program to provide such assistance to the Borrower by extending the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

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 and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

- (a) “Bank of Eritrea” or “BE” means the Bank of Eritrea, the Borrower’s central bank, established and operating pursuant to Proclamation No. 93/1997;
- (b) “Beneficiary” means an individual or group of persons who have met the eligibility criteria set out in the SMCP Operational Manual and the requirements of Schedule 4 to this Agreement and who, as a result, have received or are entitled to receive, a Micro-Credit for the carrying out of a Microproject;
- (c) “Demobilization and Reintegration Fund Account” means the account referred to in Section 3.03 of this Agreement;
- (d) “Demobilized Soldiers” means persons discharged by the Borrower from its armed forces after December 12, 2000;
- (e) “Demobilization Task Force” or “DTF” means the Demobilization Task Force established and operating in MOD (as hereinafter defined);
- (f) “Finance Manager” means the Finance Manager referred to in paragraph 3 (b) (ii) of Schedule 4 to this Agreement;
- (g) “Grant” means a grant made, or proposed to be made, to a Recipient out of the proceeds of the Credit for the financing of a Subproject;
- (h) “Grant Agreement” means an agreement for a Grant referred to in paragraph 6 Schedule 4 to this Agreement;
- (i) “Environmental Assessment” means the document referred to in Section 3.06 of this Agreement outlining procedures and guidelines to be followed in order to address, reduce and/or mitigate potential negative environmental effects under the Project;
- (j) “IAPSO” means the Inter-Agency Procurement Services Office of the United Nations;
- (k) “Management Information System” means a computerized database and tracking system installed at the NCDRP to monitor progress and activities under the Program;
- (l) “Micro-Credit” means a loan made or proposed to be made by SMCP to a Beneficiary for the purpose of financing a Microproject under Part D of the Project in accordance with paragraph 9 of Schedule 4 to this Agreement and in accordance with the SMCP

Operational Manual;

(m) “Micro-Credit Agreement” means an agreement between SMCP and a Beneficiary setting forth the terms and conditions under which a Micro-Credit shall be made available to the Beneficiary for the purpose of financing a Microproject under Part D of the Project;

(n) “Microproject” means an activity or service financed, or proposed to be financed through a Micro-Credit made under Part D of the Project which meets the criteria set fourth in the SMCP Operational Manual and the requirements of paragraph 9 of Schedule 4 to this Agreement;

(o) “Midterm Review” means the mid-term review referred to in paragraph 8 of Schedule 4 to this Agreement;

(p) “MOD” means the Borrower’s Ministry of Defense;

(q) “Nakfa” means currency of the Borrower;

(r) “National Commission for Demobilization and Reintegration Program” or “NCDRP” means the National Commission for the Demobilization and Reintegration Program, established and operating by virtue of the Borrower’s Proclamation No. 113 of 2001;

(s) “NGOs” means non-governmental organizations;

(t) “Operational Manual” means the Operational Manual adopted for the Program under the Borrower’s Proclamation No. 113 of 2001;

(u) “Participating Partners” means the Participating Partners referred to in Recital C of the Preamble to this Agreement contributing funds or technical advisory services for the Program, and “Participating Partner” means each and every Participating Partner individually;

(v) “Procurement Manager” means the Procurement Manager referred to in paragraph 3 (b) (i) of Schedule 4 to this Agreement;

(w) “Procurement Manual” means the manual detailing the procurement arrangements agreed between the Association and the Borrower to be utilized in the implementation of the Program;

(x) “Progress Report” means any of the reports referred to in paragraph 4 and 7 (b) of Schedule 4 to this Agreement;

(y) “Project Year” means the 12-month period beginning from the Effective Date

and ending 12 months thereafter and each successive 12-month period following thereafter;

(z) “Recipient” means an individual or group of persons who have met the eligibility criteria set out in the Operational Manual and the requirements of Schedule 4 to this Agreement and who, as a result, have received or are entitled to receive a Grant for the carrying out of a Subproject;

(aa) “Secretariat” means the Secretariat of NCDRP;

(bb) “Special Accounts” means the accounts referred to in Section 2.02 (b) of this Agreement;

(cc) “Special Account I” means the account for expenditures under Parts A through C;

(dd) “Special Account II” means the account for expenditures under Part D;

(ee) “SMCP” means Savings and Micro Credit Program, an administrative body within the Borrower’s Ministry in charge of local government established and operating under the Borrower’s laws;

(ff) “SMCP Operational Manual” means the Manual to be adopted pursuant to Section 6.01 (g) of this Agreement and referred to in paragraph 9 of Schedule 4 to this Agreement outlining procedures and guidelines to be followed by SMCP in the implementation of Part D of the Project;

(gg) “Subproject” means an activity or service financed, or proposed to be financed through Grants made under the Project which meets the criteria set forth in the Operational Manual and the requirements of paragraph 6 of Schedule 4 to this Agreement;

(hh) “TEVT” means the Borrower’s technical education and vocational training system;

(ii) “UNFPA” means the United Nations Fund for Population Activities;

(jj) “UNICEF” means the United Nations Children’s Emergency Fund;

(kk) “WFP” means the World Food Program;

(ll) “WHO” means the World Health Organization; and

(mm) “Zoba” means an administrative region in the Borrower’s territory established

and operating under the Borrower's laws.

## **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 forty-eight million one hundred thousand Special Drawing Rights (SDR 48,100,000).

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: (i) amounts paid (or, if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals made under a Grant to meet the reasonable costs of goods, works and services required for a Subproject in respect of which the withdrawal from the Credit Account is requested; and (ii) 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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars two separate special deposit accounts ("Special Account I" in respect to Parts A through C of the Project and "Special Account II" in respect to Part D of the Project) in the Bank of Eritrea on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2005, 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 March 15 and September 15 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 March 15 and September 15 commencing September 15, 2012 and ending March 15, 2042. Each installment to and including the installment payable on March 15, 2022 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 the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

Section 2.09. (a) NCDRP is with respect to Category (1) in Schedule 1 to the Development Credit Agreement 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.

(b) Without limitation or restriction to the foregoing, the Borrower hereby entrusts BE with the responsibility for the preparation of withdrawal applications relating to the said Category (1) and for the collection of the documents and other evidence to be furnished to the Association in support of such applications.

(c) The withdrawal applications mentioned in subparagraph (b) above shall, to the extent practicable, be consolidated so as to apply for withdrawal of aggregate amounts of not less than \$500,000 equivalent.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project, and, to this end, shall carry out the Project through NCDRP and SMCP with due diligence and efficiency and in conformity with appropriate administrative, financial and environmental practices, and shall provide, 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 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.

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 3 to this Agreement.

Section 3.03. For the purposes of Part A.2 of the Project, the Borrower shall, until completion of the Project: (a) open and thereafter maintain in Nakfa a Demobilization and Reintegration Fund Account in the Bank of Eritrea; (b) deposit into the Demobilization and Reintegration Fund Account the funds in Nakfa derived from the imports financed out of the proceeds of the Credit allocated to Category (1) in the table in Schedule 1 to this Agreement, and (c) use the funds deposited in the Demobilization and Reintegration Fund Account exclusively to



make payments for the demobilization and reinsertion of Demobilized Soldiers.

Section 3.04. For the purposes of Section 9.06 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 (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the future operation of the Project; and

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

Section 3.05. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Project.

(b) Prior to each such exchange of views, the Borrower shall furnish to the Association for its review and comment a report on the progress achieved in the carrying out of the Project, in such detail as the Association shall reasonably request.

(c) Without limitation upon the provisions of paragraph (a) of this Section, the Borrower shall exchange views with the Association on any proposed action to be taken after the disbursement of the Credit which would have the effect of materially reversing the objectives of the Project, or any action taken under the Project.

Section 3.06. The Borrower shall furnish to the Association, no later than six months after the effectiveness date, and thereafter implement, the Environmental Assessment, in form and substance satisfactory to the Association.

## **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 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 and the Demobilization and Reintegration Fund Account for each fiscal year 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 year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such 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.

## **ARTICLE V**

### **Remedies**

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

(a) that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out;

(b) that the Demobilization and Reintegration Fund Account and/or Special Accounts to have been used for purposes other than those specified in Section 3.03 of this Agreement; and

(c) (i) Subject to subparagraph (ii) of this paragraph:

(A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project (including a grant or loan made by a Participating Partner) shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefore; or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the

obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01(h) of the General Conditions, the following additional event is specified, namely, the event specified in paragraph (c) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (c) (ii) of that Section.

## **ARTICLE VI**

### **Effective Date; Termination**

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

- (a) the Borrower has opened the Demobilization and Reintegration Fund Account;
- (b) the Borrower has furnished to the Association the following plans in form and substance satisfactory to the Association, namely: (i) a detailed plan of Project activities to be carried out, on a priority basis, during the first six months after the Effective Date; and (ii) a general plan of Project activities to be carried out during the first Project Year;
- (c) the Borrower has installed a financial management and accounting system for the Project in form and substance satisfactory to the Association;
- (d) the Borrower has adopted the Procurement Manual in form and substance satisfactory to the Association;
- (e) the Borrower has furnished to the Association the first Progress Report in form and substance satisfactory to the Association;
- (f) the Borrower has initiated the installation of the Management Information System in form and substance satisfactory to the Association; and
- (g) the Borrower has furnished the SMCP Operational Manual in form and substance satisfactory to the Association.

Section 6.02. The date ninety days (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. Except as provided in Section 2.09 of this Agreement, the Minister responsible for 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:

Ministry of Finance  
P. O. Box 895  
Asmara  
Eritrea

Telex:	Facsimile:
583492421150	291 1 127947

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Asmara, The State of Eritrea as of the day and year first above written.

THE STATE OF ERITREA

By /s/ Berhane Abrehe  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo  
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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Eligible Imports specified in the Annex to this Schedule:		100% of foreign expenditures
(a)	16,700,000	
(b)	8,300,000	
(c)	8,300,000	
(2) Works	360,000	100% of foreign expenditures and 95% of local expenditures
(3) Goods excluding items under Category (1)	860,000	100% of foreign expenditures and 95% of local expenditures
(4) Consultants'		100%

	services, training and audits		
	(a) Parts A, B and C	800,000	
	(b) Part D	810,000	
(5)	Grants	3,970,000 disbursed	100% of amounts
(6)	Micro-Credits under Part D	4,550,000	100% of amounts disbursed
(7)	Operating Costs		95%
	(a) Parts A, B, and C	800,000	
	(b) Part D	100,000	
(8)	Unallocated	2,550,000	
	TOTAL	48,100,000	

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 for goods or services supplied from the territory of the Borrower; and

(c) the term “Operating Costs” means the incremental expenses incurred on account of Project implementation, management and monitoring, including office supplies, communications, transport, travel, supervision costs and Project support staff but excluding salaries of officials of the Borrower’s civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) a Grant unless the Grant has been made in accordance with eligibility criteria and on terms and conditions set forth or referred to in the Operational Manual and Schedule 4 to this Agreement;

(b) payments made for expenditures prior to the date of this Agreement, except that

withdrawals, in an aggregate amount not exceeding SDR 16,700,000, may be made in respect of Category (1) (a) set forth in the table in paragraph 1 of this Schedule on account of payments made for expenditures before that date but after December 5, 2000;

(c) expenditures under Category (1) for goods supplied under a contract which any international financing institution or agency other than the Association shall have financed or agreed to finance under another credit, loan or grant;

(d) expenditures under Category (1) for: (i) goods intended for military or paramilitary purposes or for luxury consumption, and (ii) used goods;

(e) expenditures under Category (1) unless the Borrower has furnished to the Association a progress report in form and substance satisfactory to the Association; and

(f) expenditures under category (6) for Micro-Credits under Part D unless the reports, lists and evidences referred to in paragraphs 4 and 7(b) of Schedule 4 this Agreement have been furnished and the Micro-Credit has been duly made in accordance with eligibility criteria and on terms and conditions set forth or referred to in the SMCP Operational Manual and Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (a) goods under contracts costing less than \$200,000 equivalent each; (b) works under contracts costing less than \$200,000 equivalent each; (c) consultants' services under contracts not exceeding: (A) \$100,000 equivalent each for consulting firms; and (B) \$50,000 equivalent each for individual consultants; and (d) Operating Costs and training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

## **ANNEX**

### **TO SCHEDULE 1**

#### **Eligible Imports**

1. Agricultural equipment and inputs.
2. Petroleum and fuel products.
3. Construction materials.
4. Transport vehicles and spare parts.
5. Livestock, animal products and veterinary supplies.

6. School supplies and equipment.
7. Medical supplies and equipment.
8. Construction equipment industrial machinery and spare parts.
9. Electrical equipment, machinery, materials and parts.
10. Industrial raw materials and chemicals.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to consolidate macroeconomic stability in the Borrower's territory and contribute to economic recovery in the said territory through the: (a) first phase of the demobilization program of about 60,000 soldiers in its armed forces; (b) the provision of reinsertion support to the Demobilized Soldiers; (c) the support in phases of the social and economic reintegration of Demobilized Soldiers over a period of 3 to 4 years; and (d) the mobilization and strengthening of the capacities of the Borrower's ministries and departments, private sector firms, community organizations, and other local agencies and entities participating in the implementation of the Project in order to improve the efficiency and effectiveness of the delivery of services to Demobilized Soldiers.

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

#### Part A: Demobilization

1. The carrying out of the first phase of the program to demobilize about 60,000 soldiers in the Borrower's armed forces, including: (i) the demobilization, on a pilot basis, of about 5,000 soldiers to test the applicable demobilization procedures and processes; (ii) the preparation by: (A) the MOD of clear and transparent demobilization criteria; and (B) the Demobilization Task Force (DTF) of MOD of a logistics plan to ensure the smooth processing of demobilization; (iii) the preparation of an information package to provide relevant information to soldiers selected for demobilization; (iv) the establishment of an independent appeals mechanism within MOD to determine appeals relating to demobilization; (v) the development of a non-transferable identification system capable of ensuring that only eligible ex-soldiers have access to demobilization benefits; (vi) the implementation of pre-discharge orientation and preparation of information materials to prepare Demobilized Soldiers for return to civilian life; (vii) the implementation of medical screening and voluntary counseling and testing for HIV/AIDS; and (viii) the transportation of the Demobilized Soldiers to the Zobas in which they will reside for registration purposes.

2. The collection by the Demobilization Task Force of socioeconomic data on soldiers slated for demobilization to be used in project implementation.



## Part B: Reinsertion

1. The provision to: (a) all Demobilized Soldiers and their families of a basic transition support; and (b) some Demobilized Soldiers of enhanced support on the basis of relative vulnerabilities as determined by their health status in accordance with pre-determined and transparent criteria.
2. The establishment of clear and simple payment procedures, including safeguard procedures to ensure transparency and accuracy of the payment process.
3. The importation of goods specified in the Annex to Schedule 1 to this Agreement to support the reinsertion of about 60,000 Demobilized Soldiers.

## Part C: Social and Economic Reintegration

1. (a) The carrying out of: (i) programs to familiarize local authorities and communities with: (A) the needs of Demobilized Soldiers and their families; and (B) the opportunities and challenges of reintegration; and (ii) program sensitization workshops for: (A) staff of key government ministries, staff at the central, Zoba and sub-Zoba levels; and (B) NGOs and communities.

(b) The provision by members of the National Union of Eritrean Women and the National Union of Eritrean Youth and Students trained in counseling and community development work of first-line counseling and reintegration support to Demobilized Soldiers and other war-affected groups.

(c) The strengthening and expansion of existing outreach and community support programs, and the funding of new activities that can strengthen community participation in the social reintegration of Demobilized Soldiers and war-affected groups.

2. (a) The strengthening of the Borrower's reintegration counseling capacity including: (i) assisting the Borrower's Ministry of Labor and Human Welfare to expand during 2001 through 2003 the intake of first-line counseling trainees; (ii) support training in first-line counseling of volunteers and members of NGOs; and (iii) strengthening of second-line counseling as feasible.

(b) The development of financial self-sufficiency of Demobilized Soldiers' households through:

- (i) referral services on employment, subprojects, apprenticeships, training and education opportunities;
- (ii) the provision of skills development and training opportunities, including increasing the capacity of the Borrower's TEVT to: (A) provide literacy and numeracy upgrading for about 60,000 soldiers after discharge from the armed forces; (B) regenerate the Borrower's Skills Development Centers; (C) assist existing, emerging and new private training providers; (D) refocus basic training programs on the real skills needs for development, self-employment, micro and small enterprise

development in urban and rural sectors; (E) increase TEVT provision for about 600 persons at intermediate and about 400 persons at advanced levels; (F) provide mechanisms to improve on-the-job training (including apprenticeships) for 9,000 persons within the formal and informal private sector, construction works, agricultural and community projects; (G) assist individual Demobilized Soldiers with the payment of fees payable for training undertaken under the Project; (H) provide funding support to groups and for community initiatives requiring specific training for subprojects aimed at defined employment and economic opportunities; and (I) support incentives for on-the-job private sector training providers;

- (iii) support of small-scale rural development activities to: (A) address the immediate employment and income needs of Demobilized Soldiers in rural areas; and (B) integrate Demobilized Soldiers and other war-affected groups in productive economic and agricultural activities; and
- (iv) employment promotion and training in the construction trades, including: (A) the identification of job opportunities and promotion in the construction sector; (B) the improvement of construction skills and management capacities of Demobilized Soldiers and contractors who employ Demobilized Soldiers; (C) increasing the capacity training and business development infrastructure; and (D) the testing of preferential arrangements in hiring and procurement of benefit to Demobilized Soldiers.

(c) The installation of a labor market information system to provide an information base on the economic reintegration opportunity structure for Demobilized Soldiers.

#### Part D: Savings and Micro-Credit

The establishment of: (i) Business Development Services (including business training) at the Zoba level to support the start-up and expansion of income generating activities; (ii) micro-credit services to increase the availability of credit for Demobilized Soldiers and other eligible entrepreneurs; and (iii) a legal and regulatory support.

\* \* \*

The Project is expected to be completed by June 30, 2005.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. Procurement of Goods and Works

## Part A: General

1. Goods and works shall be procured in accordance with 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 the provisions of the following Parts of this Schedule.
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 and works 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 and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

### Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

## Part C: Other Procurement Procedures

### 1. Modified International Competitive Bidding

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 \$100,000 equivalent per contract, and works estimated to cost more than \$100,000 equivalent per contract, may be procured under contracts awarded in accordance with paragraphs 3.3 and 3.4 of the Guidelines.

### 4. International or National Shopping

Goods estimated to cost less than \$100,000 equivalent per contract may be procured

under contracts awarded on the basis of international or national shopping procedures in accordance with paragraphs 3.5 and 3.6 of the Guidelines.

5. Direct Contracting

The following goods may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines: (a) goods which are estimated to cost less than \$500 equivalent; and (b) goods listed in the Procurement Manual.

6. Procurement from UN Agencies

Vehicles, office supplies and equipment, and agricultural inputs may be procured from the following UN agencies, namely 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 \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, 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 of paragraph 3.8 of the Guidelines, and costing \$200,000 equivalent or less in the aggregate, 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, 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 items 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 procedures satisfactory to the Association.

12. Commercial Practices

Activities included in the demobilization and social and economic reintegration components of the Project, may be procured under established local private sector or commercial practices, acceptable to the Association and described in the Procurement Manual, in cases in which the Association determines that conventional procurement practices are not feasible or advantageous to the carrying out of the Project.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify 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 and the Procurement Manual 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 or works estimated to cost the equivalent of \$200,000 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 for goods or works estimated to cost the equivalent of less than \$200,000, 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 \$200,000 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, as an alternative to procurement under Quality and Cost Based Selection procedures, 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 estimated to cost less than \$100,000 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. Quality-Based Selection

Services estimated to cost less than \$100,000 equivalent shall be procured under

contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

4. Single Source Selection

Services estimated to cost less than \$50,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

5. 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 \$200,000 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 estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, 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 \$50,000 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. (a) The Borrower shall maintain the Operational Manual in form and substance satisfactory to the Association. The Operational Manual shall set out details of all procedures, guidelines, timetables and criteria required for the Project.

(b) The Borrower shall carry out the Project in accordance with the Operational Manual and, except as the Association shall otherwise agree, shall not amend or waive any provision of the Operational Manual if, in the opinion of the Association, such amendment or waiver may materially and adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. (a) The Borrower shall maintain the NCDRP and its Secretariat as well as SMCP in a form and with functions, staffing and resources satisfactory to the Association.

(b) NCDRP shall be responsible for: (i) the overall management of the Project; and (ii) ensuring the satisfactory operation of the Project's financial management and reporting procedures.

(c) The Secretariat shall have a core team which shall include a Commissioner, a Deputy Commissioner, a Secretary, Program Manager and a Finance and Administration Manager. The Secretariat shall be responsible for the day-to-day management of the operations of NCDRP, including the Program. The Secretariat shall, acting in coordination with the Demobilization Task Force, carry out: (i) the demobilization and reintegration activities included in the Project and related monitoring and evaluation activities; and (ii) financial management and procurement of activities.

(d) The SMCP shall be responsible for implementing a micro-finance scheme and a micro business development service scheme under Part D of the Project.

3. (a) The Borrower shall establish in a form and with functions and resources satisfactory to the Association a Finance Unit to be located in the Secretariat. The functions of the Finance Unit shall include responsibility for the maintenance of the accounting and management system designed for the Project.

(b) The Borrower shall employ and assign to the Project persons with qualifications and experience satisfactory to the Association to serve as: (i) the Project's Procurement



Manager; and (ii) the Finance Manager of the Project.

(c) The Secretariat's functions shall include responsibility for: (i) the management of local level procurement of goods and services (particularly those related to reintegration activities); (ii) the training of Zoba-level procurement officers; and (iii) the preparation of annual procurement plans for the Project.

4. The Borrower shall within six months of the Effective Date, and semiannually thereafter, furnish to the Association: (i) a list of Demobilized Soldiers identifying the amount of funds payable to the Demobilized Soldiers under the Program; (ii) evidence showing that a random sample of at least 2% of the number of Demobilized Soldiers on the list furnished to the Association have: (A) in accordance with the said list received the amounts payable to them; and (B) acquired the goods and services intended for them under the Program.

5. (a) The Borrower shall ensure that, except as the Association shall otherwise agree, Subprojects shall be promoted, identified, appraised, approved, carried out and monitored in accordance with the procedures and other provisions set forth or referred to in the Operational Manual.

(b) Applicants for Grants shall meet relevant criteria set out in the Operational Manual with respect to the making of Grants.

6. The Borrower shall enter into agreements satisfactory to the Association as a condition for the making of Grants. The terms and conditions of each Grant Agreement shall inter alia:

(a) require that the Recipient: (i) carries out the Subproject with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards; and (ii) maintains adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the Subproject;

(b) require that the goods, works and services to be financed from the proceeds of the Grant shall: (i) be procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 3 to this Agreement; and (ii) be used exclusively in the carrying out of the Subproject or Subprojects; and

(c) reserve for the Borrower the right to:

(i) inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the Subproject or Subprojects, the operations thereof and any relevant records and documents;

(ii) obtain all information as the Borrower or the Association shall reasonably request regarding the administration, operation and financial

conditions of the Recipient; and

- (iii) suspend or terminate the right of the Recipient to use the proceeds of the Grant upon the failure by the Recipient to perform any of its obligations under the Grant Agreement.

7. The Borrower shall:

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

- (b) without limitation to or restriction upon its other reporting requirements under the provisions of this Agreement, the Borrower shall with effect from the quarter ending September 30, 2002 submit, quarterly, to the Association for review, progress reports on the implementation of the Project, said progress reports covering, among other things: (i) the status of disbursements and procurement; (ii) the volume of imports, their clearance through the ports and transportation to the place of use; (iii) the effectiveness of internal distribution of goods and services to Beneficiaries under the Project; (iv) the status of reintegration activities, (v) the generation and use of counterpart funds; and (vi) any Program implementation issues, including the measures recommended to ensure: (A) the efficient carrying out of the Project; and (B) the achievement of the objectives the Project; and

- (c) review with the Association by January 31 and July 31 of each year, or such later date as the Association shall request, the report referred to in subparagraph (b) of this paragraph, and, thereafter, take all measures required to ensure the efficient completion of Project activities 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.

8. (a) The Borrower shall, no later than December 31, 2003, carry out jointly with the Association, a midterm review of the progress made in carrying out the Project.

- (b) The Borrower shall carry out, no later than three months after the completion of the Midterm Review the recommendations of the Midterm Review as agreed with the Association and set out in an action plan for the Project satisfactory to the Association.

9. SMCP shall enter into agreements satisfactory to the Association as a condition for the making of Micro-Credits. The terms and conditions of each Micro-Credit Agreement shall inter alia:

- (a) require that the Beneficiary: (i) carries out the Microproject with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards; and (ii) maintains adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures relating to the Microproject;

(b) require that the goods, works and services to be financed from the proceeds of the Micro-Credit shall: (i) be procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 3 to this Agreement; and (ii) be used exclusively in the carrying out of the Microproject or Microprojects; and

(c) reserve for SMCP the right to:

(i) inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the Microproject or Microprojects, the operations thereof and any relevant records and documents;

(ii) obtain all information as SMCP or the Association shall reasonably request of the Beneficiary; regarding the administration, operation and financial conditions and

(iii) suspend or terminate the right of the Beneficiary to use the proceeds of the Micro-Credit upon the failure by the Beneficiary to perform any of its obligations under the Micro-Credit Agreement.

## SCHEDULE 5

### Special Accounts

1. For the purposes of this Schedule:

(a) the term “eligible Categories” means, in respect of Special Account I for Parts A through C of the Project, Categories (2), (3), (4)(a), (5) and (7)(a) as set forth in the table in paragraph 1 of Schedule 1 to this Agreement; and in respect of Special Account II for Part D of the Project, Categories (4)(b), (6) and (7)(b) as 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 \$1,000,000 in respect of Special Account I for Parts, A, B, and C of the Project; and to \$1,000,000 in respect of Special Account II for Part D of the Project, to be withdrawn from the Credit Account and deposited into the respective Special Accounts pursuant to paragraph 3 (a) of this Schedule; provided, however that:

(i) in respect of Special Account I, for Parts A, B, and C of the Project, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to US\$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000; and

(ii) in respect of Special Account II for Part D of the Project, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to US\$500,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 2,000,000.

2. Payments out of the respective 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 respective 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 deposit into the respective Special Account 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 Account such amount or amounts as the Borrower shall have requested.

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

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

(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, 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 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 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 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 respective 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 any 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 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 performance indicators for the Project shall include the following, said indicators being subject to modifications /by agreement between the Borrower and the Association:

A. Demobilization

1. 60,000 soldiers demobilized by December 31, 2003.
2. All Demobilized Soldiers received HIV/AIDS counseling.
3. Demobilization completed (including provision of identification, medical screening and pre-discharge orientation) within 10 days per person.

B. Reinsertion

4. Transitional Safety Net (TSN) payments made to all eligible Demobilized Soldiers.

C. Reintegration

5. Number of Demobilized Soldiers who received economic reintegration assistance within one and two years of demobilization.
6. Number of disabled Demobilized Soldiers who have received medical rehabilitation support within 6 months of discharge.

D. Savings and Micro-Credit

7. Number of active Beneficiaries.
  8. Repayment Rate for Micro-Credits and Portfolio yield calculated as income divided by the average outstanding Micro-Credits.
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