

CONFORMED COPY

DUTCH GRANT RELATED TO CREDIT NUMBER 2823 ER
TF NUMBER 024246

Dutch Grant Agreement

(Community Development Fund Project)

between

STATE OF ERITREA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

as Administrator of Dutch Funds provided by the
MINISTER FOR DEVELOPMENT COOPERATION OF THE NETHERLANDS

Dated August 23, 1996

DUTCH GRANT RELATED TO CREDIT NUMBER 2823 ER
TF NUMBER 024246

DUTCH GRANT AGREEMENT

AGREEMENT, dated August 23, 1996, between STATE OF ERITREA (the Grantee) and INTERNATIONAL DEVELOPMENT ASSOCIATION acting as Administrator (the Administrator) of the Dutch Grant (as hereinafter defined) provided by the Minister for Development Cooperation of the Netherlands (the Minister).

WHEREAS the Grantee has requested the assistance of the International Development Association and of the Minister in the financing of activities under the Project described in Schedule 2 to the Development Credit Agreement No. 2823 ER dated March 26, 1996 between the Grantee and the Administrator (the Development Credit Agreement);

WHEREAS the Administrator has granted a credit for this purpose on the terms and conditions set forth in the Development Credit Agreement;

WHEREAS the Minister wishes to make available to the Grantee a grant in the amount of fifteen million Dutch Guilders (NLG 15,000,000) (the Dutch Grant) to assist the Grantee in carrying out the Project on the terms and conditions hereinafter set forth;

WHEREAS by an exchange of letters (the Arrangements) dated June 14, 1996, between the Minister and the Administrator, the Minister has requested the Administrator, and the Administrator has accepted to administer, inter alia, the Dutch Grant in accordance with the provisions of the Arrangements and the General Arrangements of May 24, 1995, between the Minister and the Administrator; and

WHEREAS the Grantee acknowledges that the financial assistance extended to the Grantee under this Dutch Grant Agreement shall be considered as part of the bilateral development aid extended by the Government of the Netherlands to the Grantee;

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 (the General Conditions) constitute an integral part of this Agreement, subject, however, to the following modifications thereof:

(a) the term "Association," wherever used in the General Conditions, means the International Development Association, acting as Administrator of the Dutch Grant pursuant to the Arrangements, except in the phrase "member of the Association" in Section 2.01 (5), 4.02 (b) and Section 6.02 (e);

(b) the term "Development Credit Agreement," wherever used in the General Conditions, means this Agreement;

(c) the term "Credit," wherever used in the General Conditions, means the Dutch Grant extended to the Grantee under this Agreement;

(d) the term "Credit Account," wherever used in the General Conditions, means the Dutch Grant Account, the account opened by the Administrator in its books in the name of the Grantee to which the amount of the Dutch Grant is credited;

(e) in Section 6.02 the term "Association" shall also include the Association acting in its own capacity;

(f) Section 9.06 (c) shall be modified to read:

"(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Grantee and the Administrator, the Grantee shall prepare and furnish to the Administrator a report, of such scope and in such detail as the Administrator shall reasonably request, on the execution of the Project referred to in the Preamble to the Dutch Grant Agreement, the performance by the Grantee and the Administrator of their respective obligations under the Dutch Grant Agreement, and the accomplishment of the purposes of the Dutch Grant";

(g) Sections 3.02 through 3.05, 4.01 through 4.06, 6.05, 7.01, 8.01 (a), and Article XII are deleted; and

(h) the term "Borrower," wherever used in the General Conditions, means the Grantee.

Section 1.02. Wherever used in this Agreement, unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement and in the Development Credit Agreement have the respective meanings therein set forth, and the terms "Dutch Guilders" and "NLG" mean the currency of the Netherlands.

ARTICLE II

The Grant

Section 2.01. The Administrator agrees to extend to the Grantee, on the terms

and conditions set forth or referred to, a grant in an amount of fifteen million Dutch Guilders (NLG 15, 000,000).

Section 2.02. (a) The proceeds of the Dutch Grant may be withdrawn from the Dutch Grant Account for expenditures made (or, if the Administrator shall so agree, to be made) in respect of the reasonable cost of services, training and early retirement benefits, in accordance with the provisions of the Schedule 1 to this Agreement.

(b) The Grantee shall, for the purpose of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Administrator, 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 2 to this Agreement.

Section 2.03. (a) Except as the Administrator shall otherwise agree, contracts for works, goods and consultant services to be financed out of the proceeds of the Dutch Grant shall be procured in accordance with the provisions of Schedule 3 to the Development Credit Agreement.

(b) If the Administrator shall have reasonably determined that the procurement of any item is inconsistent with the procedures set forth or referred to in paragraph (a) above, no expenditures for such item shall be financed out of the proceeds of the Dutch Grant, and the Administrator may, without in any way restricting or limiting any other right, power or remedy of the Administrator under this Agreement, by notice to the Grantee, cancel such amount of the Dutch Grant as, in the Administrator's reasonable opinion, represents the amount of such expenditures which would otherwise have been eligible for financing out of the proceeds of the Dutch Grant.

Section 2.04. The Closing Date shall be June 30, 1998, or such later date as the Administrator shall establish. The Administrator shall promptly notify the Grantee of such later date.

ARTICLE III

Execution of the Project

Section 3.01. Except as otherwise expressly provided herein, Articles III and IV of the Development Credit Agreement are hereby incorporated into this Agreement with the same force and effect as if they were fully set forth herein, it being understood that all references in said Articles III and IV to "Association" shall be deemed to be references to the Administrator of the Dutch Grant under this Agreement, and all references to the "Credit" and the "Credit Account" shall be deemed to be references to the Dutch Grant and the Dutch Grant Account, respectively, and all references to the "Borrower" shall be deemed to be references to the Grantee.

ARTICLE IV

Representation; Transfer of Rights and Obligations

Section 4.01. The Minister in charge of finance of the Grantee shall be the representative of the Grantee for the purposes of Section 11.03 of the General Conditions.

Section 4.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Grantee:

Ministry of Finance
P. O. Box 895
Asmara
Eritrea

Telex:

583 492421150

For the Administrator:

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)

Section 4.03. In accordance with the Arrangements, the rights and obligations of the Administrator under this Agreement may be transferred to the Minister. The Grantee accepts and agrees that, upon notice by the Administrator to the Grantee to that effect, the Minister shall, ipso facto, from the date specified in such notice, be substituted in all rights and obligations of the Administrator under this Agreement as if the Minister had been an original party to this Agreement, without any further action or formality required on the part of any party, and from such date, the Administrator shall cease to have any rights or obligations as a party under this Agreement.

ARTICLE V

Effectiveness

Section 5.01. This Agreement shall become effective as of the date first above written and shall continue in effect until the Dutch Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations under this Agreement.

IN WITNESS WHEREOF, the parties hereto, acting through their representatives thereunto duly authorized, 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.

STATE OF ERITREA

By /s/ Andemicael Kahsai

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
as Administrator of the Dutch Grant

By /s/ Praful Patel

Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds
of the Dutch Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Dutch Grant, the allocation of the amounts of the Dutch Grant 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 NLG Equivalent)	% of Expenditures to be Financed
(1) Civil Works	10,000,000	100%
(2) Equipment and materials	4,000,000	100%
(3) Consultants' services and training	1,000,000	100%
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TOTAL	15,000,000 =====	

2. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

SCHEDULE 2

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (3) 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 amount of the Grant 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 NLG 1,000,000 to be withdrawn from the Grant 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 Administrator 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 Grantee shall furnish to the Administrator a request or requests for deposit into the 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 Administrator shall, on behalf of the Grantee, withdraw from the Grant Account and deposit into the Special Account such amount or amounts as the Grantee shall have requested.

(b) (i) For replenishment of the Special Account, the Grantee shall furnish to the Administrator requests for deposits into the Special Account at such intervals as the Administrator shall specify.

(ii) Prior to, or at the time of each such request, the Grantee shall furnish to the Administrator the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or replenishment is requested. On the basis payments in respect of which

of each such request, the Administrator shall, on behalf of the Grantee, withdraw from the Grant Account and deposit into the Special Account such amount as the Grantee 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 Administrator from the Grant 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 Grantee out of the Special Account, the Grantee shall, at such time as the Administrator shall reasonably request, furnish to the Administrator 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 Administrator shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Administrator shall have determined that all further withdrawals should be made by the Grantee directly from the Grant 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 Grantee shall have failed to furnish to the Administrator within the period of time specified in Section 3.03 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Administrator pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

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

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Administrator 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 Loan Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Administrator shall specify by notice to the Grantee. Such further withdrawals shall be made only after and to the extent that the Administrator 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 Administrator 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 Administrator, the Grantee shall, promptly upon notice from the Administrator: (A) provide such additional evidence as the Administrator may request; or (B) deposit into the Special Account (or, if the Administrator shall so request, refund to the Administrator) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Administrator shall otherwise agree, no further deposit by the Administrator into the Special Account shall be made until the Grantee has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Administrator 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 Grantee shall, promptly upon notice from the Administrator, refund to the Administrator such outstanding amount.

(c) The Grantee may, upon notice to the Administrator, refund to the Administrator all or any portion of the funds on deposit in the Special Account.

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

including the General Conditions.

