

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3547 ER

Development Credit Agreement

(Cultural Assets Rehabilitation Project)

between

THE STATE OF ERITREA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 9, 2001

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3547 ER

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 9, 2001, between THE STATE OF ERITREA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

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) “Eligible Categories” means Categories (1) through (5) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(b) “Eligible Expenditures” means the expenditures for goods and services referred to in Section 2.02 of this Agreement and to be financed out of the proceeds of the Credit allocated from time to time to the Eligible Categories;

(c) “Project Management Report” means each report prepared in accordance with Section 4.02 of this Agreement;

(d) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(e) “Cultural Affairs Bureau” means the Cultural Affairs Bureau of the Borrower’s Ministry of Education;

(f) “Steering Committee” means the existing Steering Committee on Cultural Heritage established by the Borrower in its Ministry of Finance and operating under the Borrower’s laws;

(g) “the National Museums” means the National Museums of Eritrea, established and operating under the Borrower’s laws;

(h) “the Eritrean Conservation Fund” means the Eritrean Conservation Fund referred to in Part B.1 (a) of the Project to be established under the Borrower’s laws;

(i) “Subproject” means an activity or other initiative to be carried out by Beneficiaries under Part B of the Project which having met the eligibility criteria set out in the Project Implementation Manual and the provisions of Schedule 4 to this Agreement is eligible for financing, on a grant basis, in accordance with the provisions of the Project Implementation Manual;

(j) “Grants” means the grants to be provided under Part B.1 of the Project;

(k) “Beneficiary” means an individual, group of persons, a private sector entity or an NGO, which has met the eligibility criteria set out in the Project Implementation Manual and the requirements of Schedule 4 to this Agreement and which, as a result, has received or is entitled to receive, a Grant for the carrying out of a Subproject;

(l) “NGO” means a non-governmental organization, determined by the Borrower and the Association as capable of assisting in the fulfillment of the objectives of the Project;

(m) “Grant Agreement” means the agreement referred to in paragraph 6 of Schedule 4 to this Agreement;

(n) “IAPSO” means the Inter-Agency Procurement Services Office of the United Nations;

(o) “Financial Reporting System” means the financial reporting system referred to in paragraph 3 (c) of Schedule 4 to this Agreement;

(p) “Midterm Review” means the midterm review referred to in paragraph 5 (a) of Schedule 4 to this Agreement;

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

(r) “Project Account” means the account referred to in Section 3.03 of this Agreement;

(s) “Initial Deposit” means the initial deposit referred to in Section 3.03 of this Agreement;

(t) “Project Implementation Manual” means the Project Implementation Manual referred to in paragraph 1 (a) of Schedule 4 to this Agreement;

(u) “Chart of Accounts” means the Chart of Accounts referred to in paragraph 3 (a) of Schedule 4 to this Agreement; and

(v) “PEC” means the Procurement Evaluation Committee referred to in paragraph 2 (f) of Schedule 4 to this Agreement.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to four million Special Drawing Rights (SDR 4,000,000).

Section 2.02. 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.

Section 2.03. The Closing Date shall be January 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 May 1 and November 1 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 May 1 and November 1 commencing November 1, 2011 and ending May 1, 2041. Each installment to and including the installment payable on May 1, 2021 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.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, cultural assets conservation and management 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 The Borrower shall: (i) open and thereafter maintain, until completion of the Project, an account in a bank to be used exclusively to meet the costs of the Project not financed out of the proceeds of the Credit; (ii) deposit into the Project Account for each calendar quarter, no later than the first day of the calendar quarter, the amount of the Borrower's quarterly counterpart contribution to Project costs for such quarter, as determined by agreement between the Borrower and the Association; and (iii) deposit into the Project Account an initial amount of Nakfa 350,000.

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.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for 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 six months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records and accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of Project Management Reports or statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, 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, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (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 Project Management Reports or 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. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of its financial management system for the Project in order to enable the Borrower, not later than eighteen months after the Effective Date, or such later date as the Association shall agree, to prepare quarterly Project management reports, acceptable to the Association, each of which:

- (i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;
- (ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and
- (iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Effective Date; Termination

Section 5.01. The following event is specified as an additional condition to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions, namely that the Borrower has opened the Project Account and deposited the Initial Deposit.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VI

Representative of the Borrower; Addresses

Section 6.01. The Minister of the Borrower for the time being responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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 the District of Columbia, United States of America, as of the day and year first above written.

THE STATE OF ERITREA

By /s/ Girma Asmerom

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto E. Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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) Civil Works	1,025,000	90%
(2) Goods	475,000	100% of foreign expenditures and 90% of local expenditures
(3) Consultants' services, workshops, training, study tours and audits	950,000	100%
(4) Grants	630,000	100% of amounts disbursed
(5) Operating Costs	475,000	90%
(6) Unallocated	445,000	
TOTAL	<u>4,000,000</u> =====	

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

(b) payments made for expenditures prior to the date of 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: (i) goods under contracts costing less than \$50,000 equivalent each; (ii) works under contracts costing less than \$75,000 equivalent each; (iii) consultants’ services under contracts not exceeding: (A) \$100,000 equivalent each for consulting firms, and (B) \$50,000 equivalent each for individual consultants; and (iv) Operating Costs and training, all under such terms and conditions as the Association shall specify by notice to the Borrower.

B. Special Account

1. The Borrower shall open and maintain in dollars a separate special deposit account, in a bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

(a) until the Association shall have received: (i) the first Project Management Report referred to in Section 4.02 (b) of this Agreement; and (ii) a request from the Borrower for withdrawal on the basis of Project Management Reports, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) upon receipt by the Association of a Project Management Report pursuant to Section 4.02 (b) of this Agreement, accompanied by a request from the Borrower for withdrawal on the basis of Project Management Reports, all further withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association determines at any time that any Project Management Report does not adequately provide the information required pursuant to Section 4.02 of this Agreement;

(b) if the Association determines at any time that all further withdrawals should be made by the Borrower directly from the Credit Account; or

(c) 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: (A) the records and accounts for the Special Account, or (B) the records and accounts reflecting expenditures with respect to which withdrawals were made on the basis of Project Management Reports.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule 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 Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Credit Agreement.

Annex A

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are Not Made
On the Basis of Project Management Reports**

1. For the purposes of this Annex:

(a) the term “Authorized Allocation” means an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex; provided, however, that, unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$250,000 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 equal or exceed the equivalent of SDR 1,000,000.

2. 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 Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested.

(b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for Eligible Expenditures. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions, 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 shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B

to

SCHEDULE 1

**Operation of Special Account
When Withdrawals Are Made
On the Basis of Project Management Reports**

1. Except as the Association may otherwise specify by notice to the Borrower, all withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.
2. Each application for withdrawal from the Credit Account for deposit into the Special Account shall be supported by a Project Management Report.
3. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the Project Management Report accompanying said application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such report; provided, however, that the amount so deposited, when added to the amount indicated by said Project Management Report to be remaining in the Special Account, shall not exceed the equivalent of \$500,000.

SCHEDULE 2

Description of the Project

The objective of the Project is to assist the Borrower in the conservation and management of its cultural assets as an integral part of the development of its economy.

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 objective:

Part A: Site Planning, Conservation and Museum Development

1. The carrying out by the National Museum of Eritrea of community-based management planning through:

(a) a systematic pilot archeological site inventory of the greater Asmara area;

(b) a community-based management planning exercise for Qohaito and Nakfa pilot sites; and

(c) management, conservation and development actions to address priority needs identified by the exercise undertaken under Part A.1 (b) above.

2. The planning, design and rehabilitation, under the supervision of the Secretariat of the Steering Committee and based on the advice of the Steering Committee, of the National Museum in Asmara for the conservation of the Borrower's cultural assets and heritage, including: (i) the determination of the objectives and functions of, and the development of a functional plan and a management structure for, the Museum; (ii) the carrying out, by the Secretariat of the Steering Committee, of the first phase of renovation work for the Museum; and (iii) the development of links by the Museum with secondary education institutions in Asmara.

Part B: Conservation of the Built Environment

1. The integration of urban economic growth and poverty reduction programs with the conservation of the architectural heritage of Asmara, Massawa and other Eritrean cities, through:

(a) the design and operation, on a pilot basis, of a legally constituted conservation fund (the Eritrean Conservation Fund) to provide support (including grants to the private sector and to communities) for the carrying out of subprojects and other activities for the restoration of buildings and public spaces for adaptive re-use and the carrying out of agreed building conservation activities, in accordance with criteria set out or referred to in the Project Implementation Manual;

(b) the strengthening of the capacity of small enterprises working in the building trades, including: (i) support and training for small-scale enterprise development for the restoration of cultural assets and training in the building trades (including the establishment of the small Seranda Workshop in Massawa); and (ii) assisting in the restoration of the architecturally significant “Covered Walkway” in the center of Massawa;

(c) small-scale enterprise development, including the selective conservation and adaptive re-use of the Borrower’s Alfa Romeo Center in Asmara as: (i) an exhibition and studio space for the Asmara arts community; and (ii) a training facility for a new generation of artisans and crafts people; and

(d) improving and reviving community and public services and assets of significant cultural value, through: (i) the conservation of several of Asmara’s theaters for their re-use by the community, including the carrying out of preliminary planning and emergency conservation works at the Teatro Asmara and the Capitol Theater; and (ii) the improved use of public spaces, including: (A) the carrying out of conservation works of the Central Post office, (B) the revival of the community-based use and management of two of Asmara’s piazzas and parks for social and cultural events, and (C) the provision of support to the ancient monastery of Debre Bizen including the building of an archive for its collection of ancient ecclesiastical manuscripts, and the opening of a small museum at the site of the monastery.

2. (a) The development of a basic set of conservation building skills through: (i) the provision for skilled cadre of knowledgeable craftspeople, of a pilot training course on building preservation and conservation at the Asmara Technical School and other suitable small urban centers; and (ii) the holding of additional courses and workshops for unskilled and unemployed laborers to provide them with basic training in building preservation and conservation skills.

(b) Improving the capacity for conservation planning through a series of priority planning initiatives for Asmara, including: (i) clarifying and formalizing the boundaries of the historic perimeter of Asmara; (ii) improving the regulatory framework for built heritage conservation; and (iii) preparation of selected conservation plans supported by targeted mapping and cadastral surveys.

Part C: Supporting Living Culture

1. Reviving oral traditions and folklore through: (i) the documentation of oral poetry from known griots and griottes of Eritrea; (ii) the preservation of the poetry for future publication and dissemination in primary and secondary schools; (iii) the documentation and classification of material collected; and (iv) the cataloguing, and the making of transcriptions of the text of the catalogued material.

2. Strengthening the capacity of the Borrower’s Cultural Affairs Bureau to carry out Part C.1 of the Project, including: (i) the establishment of partnership arrangements with persons and organizations concerned with the revival of oral traditions and folklore and

the utilization of technical advisory services; (ii) the provision of training and training material and the holding of field studies for staff of the Cultural Affairs Bureau; and (iii) arranging for traditional oral poets and storytellers to perform at festivals and workshops.

3. The collection of oral history through the carrying out of field studies and the provision of training by the Borrower in collaboration with the appropriate local institutions.

Part D: Document and Information Management

Development of a system of management of national and regional archives, through: (i) the strengthening of existing capacity for the management of such archives, including: (A) the training of personnel at the national and regional levels in such archival management, and (B) the provision of other capacity building support; (ii) the acquisition of equipment and information management technologies to assist in the establishment of a user-friendly system of information retrieval; and (iii) the provision of support for the management of the Borrower's Pavoni Center collections in Asmara, records of Asmara's Municipal building plan and other public and private archives.

Part E: Coordination and Management

Coordination and management of Project activities, including: (i) financial and procurement management, and (ii) monitoring and evaluation of the Project.

* * *

The Project is expected to be completed by July 31, 2004.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

1. Goods shall be procured in accordance with: (a) 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 (b) the provisions of the following Parts of this Section I.

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 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 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 \$200,000 equivalent or more each.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$150,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Individual units of office equipment (e.g. individual fax machines, printers, and laptop computers), up to an aggregate amount not to exceed \$200,000 equivalent, may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Procurement of Small Works

Works estimated to cost less than \$75,000 equivalent per contract, up to an aggregate amount not to exceed \$400,000 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.

5. Community Participation

Works executed under the direct supervision of Project executing agencies estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$200,000 equivalent, involving work based on specific expertise shall be procured in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations 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 as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to: (i) each contract estimated to cost the equivalent of \$150,000 or more; and (ii) the first three contracts procured on the basis of national competitive bidding procedures, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract estimated to cost the equivalent of \$30,000 or more, the following procedures shall apply:

- (i) prior to the selection of any supplier under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (iii) the procedures set forth in paragraphs 2(f), 2(g) and 3 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 \$100,000 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. Least-cost Selection

Services estimated to cost less than \$200,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than: (i) \$100,000 equivalent per contract in the case of consulting firms; and (ii) \$50,000 equivalent per contract in the case of individual consultants, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services which are estimated to cost less than \$100,000 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.

4. Individual Consultants

Services for tasks 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: (i) each contract for the employment of: (A) consulting firms estimated to cost the equivalent of \$100,000 or more, and (B) individual consultants estimated to cost the equivalent of \$50,000 or more; (ii) the terms of reference of every contract; (iii) the proposed budgets for every contract; (iv) the qualification of all consultants; (v) all single source consultancy and training contracts, and contracts for workshops and study tours, irrespective of the value of such contracts;

and (vi) each contract for the services of consulting firms estimated to cost the equivalent of less than \$25,000, 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 \$25,000 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

Part A: Implementation Arrangements

1. (a) The Borrower shall prepare and furnish to the Association a Project Implementation Manual in form and substance satisfactory to the Association. The Project Implementation Manual shall outline all procedures, guidelines, timetables and criteria required for the Project, including the procurement and disbursement procedures and the eligibility criteria for Subprojects and Grants; and

(b) The Borrower shall carry out the Project in accordance with the Project Implementation Manual and, except as the Association shall otherwise agree, shall not amend or waive any provision of the Project Implementation 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 Steering Committee on Cultural Heritage in a form and with functions, staffing and resources satisfactory to the Association. The Steering Committee shall be responsible for: (i) facilitating activities required under the Project; (ii) setting priorities for Project executing agencies; and (iii) mobilizing resources for accomplishing the Project's objectives regarding cultural asset management.

(b) The membership of the Steering Committee shall include representatives of the following organizations: (i) the Research and Documentation Center; (ii) the National Museums of Eritrea (University of Asmara); (iii) the People's Front for Democracy and Justice; (iv) the Ministry of Education; (v) the Ministry of Tourism; (vi) the Ministry of Finance; (vii) the Office of the President; and (viii) the Municipalities of Asmara and Massawa. Without limiting the preceding provisions of this subparagraph (a) the membership of the Steering Committee shall be subject to modification by the Borrower.

(c) The Borrower shall maintain the existing Secretariat of the Steering Committee, established by the Borrower in a form and with functions, staffing and resources satisfactory to the Association. The Secretariat shall be responsible for: (i) the operation and maintenance of a systematic monitoring and reporting system under the Project; and (ii) the day-to-day coordination and management of the Project. The staff of the Secretariat shall include: (i) a Chairman and Project Coordinator; (ii) a Project accountant and a Procurement Specialist; and (iii) a Monitoring and Evaluation Specialist, all with qualifications and experience satisfactory to the Association.

(d) The Secretariat shall be assisted in the carrying out of its functions by the following agencies, namely: (i) the Borrower's Research and Documentation Center; (ii) the National Museums of Eritrea; and (iii) the Cultural Affairs Bureau. The said agencies

shall have primary responsibility for the day to day carrying out of various components of the Project as set out in the Project Implementation Manual.

(e) The Borrower shall no later than three months after the Effective Date establish and thereafter maintain a Procurement Evaluation Committee in a form and with functions, staffing and resources satisfactory to the Association. PEC shall assist the Borrower in the procurement of goods, works and services under the Project. Its functions shall also include: (i) the evaluation of tender documents for all goods, works and services to be procured under the Project; and (ii) on the basis of said evaluation, the making of recommendations to the Steering Committee regarding contract awards under the Project.

(f) The membership of PEC shall comprise: (i) the Chairman of the Secretariat and the Project Coordinator; (ii) the Procurement Specialist in the Secretariat, as member and Secretary; (iii) the Accountant in the Secretariat; and (iv) such other members as the Borrower shall in consultation with the Association appoint.

3. The Borrower shall:

(a) prepare a Chart of Accounts in a form and substance satisfactory to the Association;

(b) no later than 6 months after the Effective Date prepare a Financial Procedures Manual in a form and substance satisfactory to the Association;

(c) install and maintain a financial Reporting System in a form and substance satisfactory to the Association; and

(d) prepare and furnish to the Association no later than 3 months after the Effective Date a procurement plan in form and substance satisfactory to the Association, said plan being subject to annual modification by agreement between the Borrower and the Association.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement: (i) the carrying out by the Borrower of the Project; and (ii) the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 31 and September 30 of each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on: (i) the progress achieved in the carrying out of the Project, during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project; and (ii) the achievement of the objectives thereof during the period following such date;

(c) review with the Association by May 31 and November 30 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 the Project 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; and

(d) The Borrower shall prepare and furnish to the Association no later than January 30 in each year of the Project an action plan (the Action Plan) including an annual work plan and budget and procurement plan in form and substance satisfactory to the Association.

5. (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. The Midterm Review shall cover, among other things: (i) the progress made in meeting the objectives of the Project; and (ii) the overall performance by the Borrower of its obligations under the Project.

(b) The Borrower shall carry out, no later than one month 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 of the Project satisfactory to the Association.

Part B: Subprojects and Grants

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

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

(b) require the goods, works and services to be financed from the proceeds of the Grant shall: (i) to be procured in accordance with procedures ensuring efficiency and economy and in accordance with the provisions of Schedule 3 to this Agreement; and (ii) to be used exclusively in the carrying out of the Subproject; 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, 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 Beneficiary; and
- (iii) suspend or terminate the right of the Beneficiary to use the proceeds of the Grant upon the failure by the Beneficiary to perform any of its obligations under the Grant Agreement.

SCHEDULE 5

Performance Indicators

The performance indicators for the Project shall include the following, said indicators being subject to modification by agreement between the Borrower and the Association:

A. Site Planning, Conservation and Museum Development

1. Archeological inventory for Asmara is completed, and an evaluation of the inventory approach is completed to assess its potential for wider application.
2. Community-based site conservation and management plans are prepared and are under implementation in Qohaito and Nakfa, and are evaluated for wider application.
3. Institutional base, management structure, and mission statement for National Museums of Eritrea are determined.
4. New museum facility is planned, and first phase of renovation is completed.

B. Conserving the Built Environment

5. Eritrean Conservation Fund is established and is financing private sector and community-based conservation activities.
6. Seranda Workshop is established and Covered Walkway in Massawa is renovated/restored.
7. Alfa Romeo Building is conserved as exhibition space and studio space for Asmara arts community as a demonstration project.
8. Conservation plans and emergency conservation works of Teatro Asmara and Capitol Theater are completed.
9. Conservation plans and emergency conservation works of Central Post Office and of two city parks/piazzas (using community-based approaches) are completed.
10. Archival/museum support mobilized for Debre Bizen monastery.
11. Training program for skilled craftspeople and unskilled workers in building conservation carried out.
12. Planning initiatives for Asmara are completed, which focus on improving the regulatory framework, the development of special conservation areas, and development of selected conservation plans.

C. Supporting Living Culture

13. Program of field studies and training in oral history and oral literature and traditions are carried out.

14. Representative oral poetry is collected by supporting performance opportunities and workshops, material is documented and transcribed, and is included into educational curricula.

15. Oral histories are collected, published, and disseminated.

D. Documentation and Information Management

16. Program of overseas training in records management is completed, and local training program is developed and implemented.

17. Training in maintenance of digital conversion equipment and of audio-visual and photographic material is carried out, and equipment/materials needed for conservation of audio-visual and photographic material is procured and deployed.

18. Storage units for ecclesiastic manuscripts are procured and delivered to monasteries in conjunction with training in manuscript conservation.

19. Training and equipment is provided to the Pavoni center to begin preparation of library catalogue.