

**CONFORMED COPY**

**CREDIT NUMBER 3949 ER**

**GRANT NUMBER H114 ER**

# **Development Financing Agreement**

**(Eritrea Power Distribution and Rural Electrification Project)**

**between**

**THE STATE OF ERITREA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated September 22, 2004**

**CREDIT NUMBER 3949 ER**  
**GRANT NUMBER H114 ER**

**DEVELOPMENT FINANCING AGREEMENT**

AGREEMENT, dated September 22, 2004, between THE STATE OF ERITREA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated May 25, 2004, describing a program of policies, objectives and actions designed to reform and restructure its power sub-sector, and transforming it into an efficient and financially viable electricity industry (the Program), and declaring the Borrower's commitment to the execution of such 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 assist in the financing of the Project;

(C) Parts A, B, and D.2 of the Project will be carried out by Eritrean Electric Corporation (EEC) with the Borrower's assistance and, as part of such assistance, the Borrower will make the proceeds of the Credit and of the Grant provided for in this Agreement available to EEC, as set forth in this Agreement;

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the financing to the Borrower upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and EEC (the Project Agreement);

NOW THEREFORE the parties hereto hereby agree as follows:

## ARTICLE I

### General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Financing Agreements” of the Association, dated January 1, 1985 as amended through May 1, 2004, with the modifications set forth in Schedule 7 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Beneficiary” means a village or group of villages, a *Zoba* (as hereinafter defined), a non-governmental organization, or a cooperative, that is selected to receive a Subgrant (as hereinafter defined), in accordance with eligibility criteria satisfactory to the Association, for the implementation of Subprojects (as hereinafter defined) under Part C of the Project, and “Beneficiaries” shall mean such Beneficiaries collectively;

(b) “Electricity Proclamation” means Proclamation No. 141/2004 dated May 7, 2004;

(c) “Eritrean Electric Corporation” or “EEC” means the Eritrean Electric Corporation established pursuant to the Borrower’s Proclamation No. 142/2004 dated May 7, 2004;

(d) “Eligible Categories” means Categories (1) to (7) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(e) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services and training referred to in Section 2.02 of this Agreement;

(f) “Environmental and Social Management and Monitoring Plan” or “ESMMP” means the framework adopted by the Borrower in January 2004, describing the environmental and social planning, review, approval, mitigation, monitoring, training, technical assistance, and institutional measures under the Project, as the same may be updated from time to time, and referred to in Paragraph 10 of Schedule 4 to this Agreement;

(g) “Fiscal Year” and “FY” means the Borrower’s fiscal year, which begins on January 1 and ends on December 31 of each year;

(h) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(i) “Financial Management Manual” means the finance, accounting and administration manual referred to in Section 7.01 (c) of this Agreement, including internal control procedures relating to the civil works, goods and technical advisory services to be carried out under the Project, a chart of accounts, and the format and content of financial reports and cash flow forecasts;

(j) “MEM” means the Borrower’s Ministry of Energy and Mines;

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

(l) “Operational Manual” means the manual of procedures, in form and substance satisfactory to the Association, setting out, *inter alia*, the eligibility criteria, procedures, terms and conditions, procurement arrangements, and institutional and financial framework required for the selection and implementation of Subprojects under Part C of the Project, as the same may be amended from time to time with the agreement of the Association, and such term includes any schedules to the Operational Manual;

(m) “Procurement Plan” means the Borrower’s procurement plan, dated May 22, 2004, covering the initial 18 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18 month periods (or longer) of Project implementation;

(n) “Project Account” means the account referred to in Section 3.04 (a) of this Agreement;

(o) “Project Management Unit” or “PMU” means the unit within EEC responsible for the daily operations and management of Parts A, B, and D.2 of the Project, referred to in paragraph 4 of Schedule 4 to this Agreement;

(p) “Project Agreement” means the agreement between the Association and EEC of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement;

(q) “Project Preparation Advance” or “PPA” means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on March 8, 2001, and on behalf of the Borrower on March 23, 2001;

(r) “REF” means the Rural Electrification Fund established pursuant to Article 22 of Proclamation No. 141/2004 dated May 7, 2004, of the laws of the Borrower;

(s) “Resettlement Policy Framework” or “RPF” means the framework dated January 2004, outlining the measures related to land acquisition, resettlement and rehabilitation under the Project, and referred to in Paragraph 10 of Schedule 4 to this Agreement;

(t) “Resettlement Action Plan” or “RAP” means the action plan to be prepared by the Borrower, through EEC, in form and substance satisfactory to the Association, and referred to in Part E of the Project;

(u) “Special Account A” means the account referred to in Paragraph 1 (a) of Schedule 5 to this Agreement;

(v) “Special Account B” means the account referred to Paragraph 1 (b) of Schedule 5 to this Agreement;

(w) “Special Account C” means the account referred to Paragraph 1 (c) of Schedule 5 to this Agreement;

(x) “Special Accounts” means collectively Special Account A, Special Account B, and Special Account C;

(y) “Subgrant” means a grant made or proposed to be made out of the proceeds of the Rural Electrification Fund, and referred to in Part C of the Project;

(z) “Subproject” means the activities carried out by Beneficiaries under the REF;

(aa) “Subproject Agreement” means any of the agreements to be entered into between the Borrower and the Beneficiaries for the purposes of carrying out Subproject pursuant to conditions set forth in Section C of Schedule 4 to this Agreement;

(bb) “Subsidiary Financing Agreement” means the agreement to be entered into between the Borrower and EEC pursuant to Section 3.01 (c) of this Agreement;

(cc) “Support Committee” means the committee comprising of representatives of the Department of Environment, heads of the Economic Department of the respective *Zobas* (as hereinafter defined), and EEC’s Project Manager, to oversee implementation of the environment and social mitigation measures for Part B of the Project;

(dd) “Technical Committee” means the committee composed of representatives from Asmara Department of Infrastructure, Department of Water, Department of Environment, Eritrean Telecommunication Services Corporation, and National Museum, to provide support to EEC in the implementation of Part A of the project;

(ee) “Village Administrator” or “VA” means the local community elected representative according to the Borrower’s laws;

(ff) “*Zoba*” means an administrative region in the Borrower’s territory established and operating pursuant to Proclamation Number 86 of 1996; and

(gg) “*Zoba* Administrator” or “ZA” means the regional appointed representative according to the Borrower’s laws.

## **ARTICLE II**

### **The Financing**

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to twenty million Special Drawing Rights (SDR20,000,000) (the Credit); and

(b) an amount in various currencies equivalent to fourteen million five hundred thousand Special Drawing Rights (SDR 14,500,000) (the Grant).

Section 2.02. (a) (i) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the

reasonable cost of works, goods and services required for Part A of the Project and to be financed out of the proceeds of the Credit; and (ii) the amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for Parts B, C, D, and E of the Project and to be financed out of the proceeds of the Grant.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars three separate special deposit accounts in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Paragraph 1 of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Grant Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2009, 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: (i) 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, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) Each 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 the Grant Account (as the case may be), or canceled; and (ii) at the respective 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 respective 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) Each 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 June 15 and December 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 June 15 and December 15, commencing December 15, 2014, and ending June 15, 2044. Each installment to and including the installment payable on June 15, 2024, 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 Association shall consider the Borrower creditworthy for Association 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. The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

(a) shall carry out the Parts C, D1, D3, and E of the Project, through MEM, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project;

(b) without any limitation or restriction upon any of its obligations under this Agreement, shall cause EEC to carry out Parts A, B, and D.2 of the Project in accordance with the provisions of the Project Agreement and all the obligations of EEC therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable EEC to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance;

(c) for the purposes of implementing Parts A, B, and D.2 of the Project, the Borrower shall relend the proceeds of the Credit and make available the proceeds of the Grant allocated from time to time to Categories (1), (2), (3) (a), (4) (a), (4) (b), (4) (d) and (5) (a) set forth in the table in Paragraph 1 of Schedule 1 to this Agreement to EEC under a Subsidiary Financing Agreement to be entered into between the Borrower and EEC, said Subsidiary Financing Agreement referred to in Paragraph 8 of Schedule 4 to this Agreement; and

(d) the Borrower shall exercise its rights under the Subsidiary Financing Agreement in such manner as to protect the interests of the Borrower and the Association, and to accomplish the purposes of the Financing, and, except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Financing Agreement or any provision thereof.

Section 3.02. (a) 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 Financing, shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) shall be carried out by EEC pursuant to Section 2.03 of the Project Agreement.

Section 3.04. Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower shall:

(a) open and thereafter maintain, for the duration of the Project, an account in Nakfa (the Project Account) for Parts C, D1, D3, and E of the Project, in a commercial bank on terms and conditions satisfactory to the Association;

(b) deposit therein an initial amount to cover six months of the Project expenditures for Parts C, D1, D3, and E of the Project (the Initial Deposit);

(c) ensure that the amounts deposited into the Project Account shall be used exclusively to make payment to meet expenditures made or to be made in respect of the

reasonable cost of goods, works, and consultant services and training under Parts C, D1, D3, and E of the Project; and

(d) thereafter deposit into the Project Account on a semi-annual basis during the Project implementation, such amount as shall be required to timely replenish the Project Account back to the amount of the initial deposit referred to in paragraph (b) of this Section 3.04.

## **ARTICLE IV**

### **Financial Covenants**

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) the Borrower shall:

- (i) have the financial statements referred to in paragraph (a) of this Section for Parts C, D1, D3 and E of the Project, for each fiscal year (or other period agreed to by the Association), commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made in respect of Parts A, B and D.2 of the Project, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) cause EEC to establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect its operations and financial condition and to register separately the operations, resources and expenditures related to Parts A, B and D.2 of the Project.

(c) The Borrower shall cause EEC to:

- (i) have the respective financial statements referred to in paragraph (a) of this Section for Parts A,B and D.2 of the Project, for each fiscal year (or other period agreed to by the Association) commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made in respect of Parts A, B and D.2 of the Project, audited, in accordance with consistently applied auditing standards acceptable to the

Association, 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 (or such other period agreed to by the Association): (A) certified copies of the respective financial statements referred to in paragraph (a) of this Section for such year (or such other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records, accounts and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

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

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit or the Grant Account was made;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports or statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Paragraphs 6 and 7 of Schedule 4 to this Agreement, the Borrower shall prepare for Parts C, D1, D3, and E of the Project, and cause EEC to prepare for Parts A, B, and D.2 of the Project, and furnish to the Association, a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing, and explains variances between the actual and planned uses of such funds;

- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

Section 4.03. Except as the Association shall otherwise agree, the Borrower shall implement and maintain the financial restructuring of EEC as described under the Program and in accordance with Paragraph 13 (c) of the letter of sector policy furnished by the Borrower to the Association, and referred to in the Preamble to this Agreement.

## **ARTICLE V**

### **Other Covenants**

Section 5.01. The Borrower shall cause EEC:

(a) to take out and maintain with responsible insurers, or to make other provision satisfactory to the Association for, insurance against such risks and in such amounts as shall be consistent with appropriate practice;

(b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering, environmental, and technical practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and

(c) at all times to operate and maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial and engineering, environmental, and technical practices.

## **ARTICLE VI**

### **Remedies of the Association**

Section 6.01. 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 significant part thereof, will be carried out;

(b) as a result of events which have occurred after the date of the Development Financing Agreement, an extraordinary situation shall have arisen which shall make it improbable that EEC will be able to perform its obligations under the Project Agreement and the Subsidiary Financing Agreement; and

(c) Proclamations No. 141/2004 and No. 142/2004, dated May 7, 2004, shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of EEC to perform any of its obligations under the Project Agreement.

Section 6.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional event is specified, namely, that the event specified in Section 6.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower.

## **ARTICLE VII**

### **Effective Date; Termination**

Section 7.01. The following events are specified as additional conditions to the effectiveness of the Development Financing Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Project Account has been opened and the Initial Deposit deposited therein;

(b) the Borrower and EEC each have established an adequate financial management system, and adequate capacity to produce FMRs, in form and substance satisfactory to the Association, to ensure proper accounting and monitoring of Project funds;

(c) the Borrower has adopted a Financial Management Manual, in form and substance satisfactory to the Association;

(d) EEC has issued the request for proposal for selection of the independent auditors referred to in Section 4.01 of this Agreement, in form and substance satisfactory to the Association and in accordance with the provisions of Section III of Schedule 3 to this Agreement;

(e) the Borrower and EEC have executed the Subsidiary Financing Agreement, in form and substance satisfactory to the Association;

(f) EEC has appointed an accountant, having terms of reference and qualifications satisfactory to the Association; and

(g) the Borrower has caused EEC to submit its 2003 audited financial statements to the Association.

Section 7.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by EEC, and is legally binding upon EEC in accordance with its terms; and

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

Section 7.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

**ARTICLE VIII**

**Representative of the Borrower; Addresses**

Section 8.01. 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 8.02. 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

Facsimile:

583492421150

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

Facsimile:

(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, State of Eritrea as of the day and year first above written.

THE STATE OF ERITREA

By /s/ Woldai Futur  
Authorized Representative

INTERNATIONAL DEVELOPMENT  
ASSOCIATION

By /s/ Makhtar Diop  
Authorized Representative

## 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 Financing, the allocation of the amounts of the Financing 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>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	10,000		100% of foreign expenditures and 85% of local expenditures
(2) Supply and Installation	17,350,000		100% of foreign expenditures and 85% of local expenditures
(a) for Part A		6,900,000	
(b) for Part B			
(3) Goods			100% of foreign expenditures and 85% of local expenditures
(a) for Part D.2		1,030,000	
(b) for Part D.1, D.3 and E		30,000	
(4) Consultants' Services and Audits			100% of foreign expenditures and 85% of local expenditures
(a) for Part A		1,340,000	
(b) for Part B		430,000	
(c) for Part D.1		620,000	
(d) for Part D.2		380,000	
(e) for Part D.3		90,000	
(f) for Part E		60,000	
(5) Training and Workshops			100%
(a) for Part D.2		280,000	
(b) For Part D.1, D.3 and E		210,000	

(6) Subgrants under Part C of the Project		970,000	100% of the amounts disbursed
(7) Operating Costs		50,000	85%
(8) Refunding of Project Preparation Advance		690,000	Section 2.02 (c) of this Agreement
(9) Unallocated	2,640,000	1,420,000	
		<u>=====</u>	<u>=====</u>
	TOTAL	<u>20,000,000</u>	<u>14,500,000</u>

2. For the purposes of this Schedule, the term:

(a) “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) “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) “Training and Workshops” includes study tours, workshops on Project activities, purchase of training materials, rental of training facilities, health insurance for travel abroad, per diem and travel costs;

(d) “Supply and Installation” means the costs arising under Parts A and B of the Project for the rehabilitation of the distribution network and rural electrification; and

(e) “Operating Costs” means the incremental operating costs arising under the Project on account of maintenance of vehicles, fuel, equipment, office supplies, utilities, consumables, office rent, travel, per diem and allowances, travel and accommodation, and reasonable Association charges related to the operation of the Special Account, but excluding salaries of the Borrower’s civil servants.

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

(a) payments made for expenditures prior to the date of this Agreement; and

(b) expenditures under Category (6) for any Subproject, unless the Operational Manual has been submitted in form and substance satisfactory to the Association, including: (i) the eligibility criteria for selection of Beneficiaries and approval of applications for a Subgrant; (ii) criteria for selection of sites; and (iii) a sample Subproject Agreement to be entered into between the Borrower and a Beneficiary on terms and conditions, including those specified under paragraph 9 of Schedule 4 to this Agreement.

4. The Association may require withdrawals from the Credit Account and the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$250,000 equivalent per contract; (b) works, including supply and installation costing less than \$500,000 equivalent per contract; (c) for services of individual consultants costing less than \$50,000 equivalent per contract; and (d) for services of consulting firms under contracts costing less than \$100,000 equivalent per contract, all under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to support the Borrower's efforts in: (a) carrying out a sustainable program for the expansion of access to electricity; (b) improving the quality and adequacy of the electricity supply in its territory; and (c) strengthening the institutional capacity of key energy sector agencies, including regulatory and institutional reforms in the sector to increase efficiency and attract private participation.

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:            Rehabilitation and Expansion of Urban Electricity Distribution

Carrying out activities (including design and supervision) for the rehabilitation and expansion of the Asmara Power Distribution Network, including: (a) upgrading and installing substations and transformers; (b) installing underground cables, overhead lines and distribution poles; and (c) constructing transformer cabins; all through the acquisition of goods and equipment, provision of works, technical advisory services and training.

Part B:            Rural Electrification

Carrying out activities for the expansion of the grid based rural electrification program to towns and villages within the territory of the Borrower, focusing on the areas around: (a) Keren, (b) Barentu, (c) Dekemhare, and (d) Adi-Keih, all through the acquisition of goods and equipment, provision of works, technical advisory services, and training.

Part C:            Rural Electrification Fund

Establishing suitable administrative management and operationalizing the Rural Electrification Fund as the mechanism for financing electrification of villages, small towns and peri-urban areas on the basis of Subgrants to EEC, electric cooperatives, or private sector, through the acquisition of goods and equipment, provision of works, technical advisory services, and training.

Part D:            Sector Reform and Institutional Capacity Building

1.        Carrying out activities for the finalization and implementation of the Borrower's power sector reform and development program, including: (a) providing technical assistance for the conclusion and implementation of the Electricity Proclamation; (b) establishing a sound institutional and regulatory framework for the power sector; (c) carrying out a tariff study and developing and implementing a tariff setting policy and mechanism; (d) structuring the Rural Electrification Fund; and (e) related activities and studies as may be required during the implementation period, all through the acquisition of goods and equipment, technical advisory services, and training.

2.        Carrying out capacity building activities for EEC, including, *inter alia*: (a) implementing a management information system; (b) establishing separate accounts for rural and urban businesses; (c) strengthening the corporate planning function; (d) training in project management, environmental management, procurement, financial management, investment planning, customer care and demand management, tariff setting and auditing; (e) a study on EEC's institutional capacity; and (f) related activities and studies as may be required during the implementation period, all through the acquisition of goods and equipment, technical advisory services, and training.

3.        Carrying out capacity building activities for MEM, including, *inter alia*: (a) engaging a training coordinator to evaluate the training needs of MEM, VA, ZA; (b) training for MEM, VA, ZA, electric cooperatives, and private sector; (c) monitoring and evaluation of Project activities; and (d) other related activities as may be required during the implementation period, all through the acquisition of goods and equipment, technical advisory services, and training.

Part E:            Environmental Monitoring

1.        Strengthening capacity of PMU, MEM, *Zoba* and Village Administrators for the implementation of: (a) ESMMP; (b) RPF and RAP; (c) monitoring and evaluation of the Project activities; and (d) environmental studies, social studies and audits, all through the acquisition of goods including office equipment and vehicles, provision of works, technical advisory services, and training.

\* \* \*

The Project is expected to be completed by December 31, 2008.

### **SCHEDULE 3**

#### **Procurement**

##### Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Section I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

##### Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

###### A. International Competitive Bidding.

Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

###### B. Other Procurement Procedures

1. Limited International Bidding. Goods which the Association agrees can only be purchased from a limited number of suppliers, regardless of the cost thereof, may be procured under contracts awarded on the basis of limited international bidding in accordance with the provisions of paragraphs 3.1 and 3.2 of the Procurement Guidelines.

2. National Competitive Bidding. Goods estimated to cost less than \$250,000 equivalent per contract and works, including supply and installation estimated to cost less

than \$500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

3. Shopping. Goods estimated to cost less than \$50,000 equivalent per contract and works estimated to cost less than \$75,000 equivalent per contract, may be procured under contracts awarded on the basis of Shopping.

4. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

5. Force Account. Works which the Association agrees meet the requirements for Force Account may be carried out in accordance with the provisions of procurement method.

6. Procurement from UN Agencies. Goods estimated to cost less than \$100,000 may be procured directly from IAPSO in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

7. Commercial Practices. Items to be financed under Subgrants made for Subprojects under Part C of the Project, may be procured in accordance with commercial practices acceptable to the Association, and procedures, specifically specified in the Operational Manual.

### Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality and Cost-base Selection.

#### B. Other Procedures

1. Quality-based Selection. Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts awarded on the basis of quality in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Under a Fixed Budget. Services for assignments which the Association agrees meet the requirements of paragraph 3.5 of the Consultant Guidelines may be procured under contracts awarded on the basis of a fixed budget in accordance with the provisions of paragraphs 3.1 and 3.5 of the Consultant Guidelines.



3. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of lowest cost in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

4. 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, 3.7 and 3.8 of the Consultant Guidelines.

5. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis in accordance with the provisions of said paragraph 5.4, subject to prior approval of the Association.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association: (a) each contract for works, including supply and installation estimated to cost the equivalent of \$500,000 or more; (b) each contract for goods estimated to cost the equivalent of \$250,000 or more; (c) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; and (d) each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more. All other contracts shall be subject to Post Review by the Association.

## **SCHEDULE 4**

### **Implementation Program**

#### **A. General**

##### **1. The Borrower shall:**

(a) carry out the Project in accordance with the Procurement Plan, Financial Management Manual and the Operational Manual, except as the Association shall otherwise agree, shall not amend, abrogate or waive any provision of these documents without the Association's prior written approval. In case of any conflict between the terms of said documents and those of this Agreement, the terms of this Agreement shall prevail;

(b) 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 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(c) not later than March 31, 2005, or such other date as the Association shall agree upon, carry out and furnish to the Association, a study on electricity tariffs;

(d) not later than September 30, 2005, or such other date as the Association shall agree upon, establish a criteria, satisfactory to the Association, for electricity tariffs setting mechanism;

(e) not later than May 31, 2005, or such other date as the Association shall agree upon, establish and furnish to the Association, the performance indicators for EEC with respect to urban distribution and rural electrification businesses;

(f) not later than June 30, 2005, or such other date as the Association shall agree upon, discuss with the Association and implement the institutional capacity strengthening measures to enable EEC to effectively carry out its mandate and fulfill its obligations in accordance with the Electricity Proclamation No. 141/2004 dated May 7, 2004;

(g) not later than April 30, 2005, carry out a study on electricity regulation, and implement the key provisions, in form and substance satisfactory to the Association;

(h) not later than May 31, 2005, carry out a study on the institutional, administrative and fiduciary arrangements, and define an eligibility criteria for the Rural Electrification Fund, in form and substance satisfactory to the Association;

(i) jointly with the Association, exchange views with regard to its power sector reform and development program, its electricity pricing policies and its investment and expansion plans for the power sub-sector, including for rural electrification;

(j) not undertake material amendments to the institutional and financial framework for its power sector, EEC, or its rural electrification program without prior consultations with the Association;

(k) not take any measures that may adversely affect the effective performance of EEC as a commercially viable venture; and

(l) appoint to MEM, and thereafter maintain during Project implementation, a project coordinator having terms of reference and qualifications satisfactory to the Association, and appropriate staff support to oversee the implementation of Parts C, D1, D3 and E of the Project.

B. Project Coordination and Management

2. Project Technical Committee

(a) The Borrower shall, within six months after the Effective Date, establish and thereafter maintain, until the completion of the Project, the Project Technical Committee in a form and with functions and resources satisfactory to the Association.

(b) The Project Technical Committee shall be responsible for providing periodic scientific and technical advice during Project implementation.

3. Project Support Committee

The Borrower shall, within six months after the Effective Date, establish and thereafter maintain, until the completion of the Project, the Project Support Committee, in a form and with functions and resources satisfactory to the Association, which includes responsibility for providing periodic advise during Project implementation.

4. Project Management Unit

The Borrower shall:

(a) maintain until the completion of the Project a PMU, within EEC, in a form and with functions and resources satisfactory to the Association, with competent staff in adequate numbers, all with terms of reference, qualifications, experience and terms of employment satisfactory to the Association, including: (i) a Project manager; (ii) a technical advisor; (iii) a general services advisor; (iv) procurement and financial management specialists; (v) an accountant; (vi) a public relation specialist; and (vii) an environmental coordinator.

(b) the PMU shall be responsible for the day-to-day implementation of the Parts A, B and D.2 of the Project, including, *inter alia*: (i) carrying out procurement; (ii) providing technical support; (iii) managing Project finances; (iv) carrying out studies as per the Implementation Plan; (v) monitoring and evaluation of Project activities; and (vi) implementing the ESMMP and RPF for Parts A and B of the Project.

5. Procurement and Implementation Plans

The Borrower shall ensure that a procurement plan is submitted to the Association for its review on an annual basis by June 30 of every year of Project implementation, commencing June 30, 2005.

C. Quarterly Progress Report, Semi-Annual Reports and Midterm Reviews

6. Quarterly Progress Report

The Borrower and EEC shall, each:

(a) prepare and furnish to the Association quarterly progressive reports integrating the results of the monitoring and evaluation activities performed pursuant to paragraph 1 (b) of this Schedule, on 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 the achievement of the objectives thereof during the period following such date;

(b) not later than one month prior to the date of the joint semi-annual review, furnish to the Association, for its comments, each respective report in such detail as the Association shall reasonably request, on the progress of the Project; and

(c) following each semi-annual review, act promptly and diligently in order to, jointly with EEC, take any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, as agreed upon by the Parties in furtherance of the objectives of the Project.

7. Midterm Review

The Borrower shall:

(a) not later than December 30, 2006, carry out jointly with EEC and the Association a mid-term review, which will cover: (i) overall progress in the implementation of the Project and in meeting the objectives thereof; and (ii) the results of the monitoring and evaluation activities, as measured against the performance indicators;

(b) not later than one month before the review referred to in subparagraph (a) above, jointly with EEC, prepare and furnish to the Association a report in such scope and detail as the Association shall reasonably request, on the implementation of the Project and achievement of the objectives thereof, including a program of action to deal with potential deficiencies in Project implementation as may have been identified prior to carrying out such review; and

(c) thereafter, act promptly and diligently in order to 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.

D. Subsidiary Financing Agreement

8. Terms and Conditions of the Subsidiary Financing Agreement

The terms and conditions of the Subsidiary Financing Agreement shall include the following obligations for EEC:

(a) borrow under an on-lending arrangement the proceeds of the Credit allocated to categories (1) and (2), as set forth in the table in paragraph 1 of Schedule 1 to this Agreement, for carrying out Part A of the Project on:

(i) a repayment period of 20 years including a grace period of 5 years;

- (ii) interest rate of 3.55 % per annum; and
- (iii) other financial terms as the Borrower and EEC shall agree upon;

(b) receive the proceeds of the Grant allocated to categories 2(b), (3)(a), (4)(a), (4)(b), (4)(d) and (5)(a), as set forth in the table in paragraph 1 of Schedule 1 to this Agreement, under terms, excluding repayment, interest, and financial terms referred to in sub-paragraph (a) above, for the carrying out of Parts B and D.2 of the Project.

(c) carrying out Parts A, B and D.2 of the Project with diligence and efficiency, in conformity with:

- (i) appropriate administrative, financial, technical and environmental practices;
- (ii) Procurement Plan, Financial Management Manual, ESMMP, RPF and RAP; and
- (iii) provide, or cause to be provided, promptly as needed, the facility, services and other resources required for the Project;

(d) comply with the procedures for the procurement of goods, works and consultant services set forth in Schedule 3 to this Agreement;

(e) comply with record keeping, auditing and reporting requirements set forth in Section 4.01 of this Agreement with respect to the Project, including the annual auditing and its records and accounts in respect of the Project (operations, resources and expenditures in respect of the Project);

(f) at the request of the Borrower or the Association, exchange views with the Borrower and the Association with regards to the progress of the Project and the performance of its obligations under the Subsidiary Financing Agreement; and

(g) in case of conflict between the Subsidiary Financing Agreement and this Agreement, the latter shall prevail.

E. Subprojects

9. (a) The Borrower shall ensure that Subprojects under Part C of the Project are identified, appraised, approved, implemented and monitored in accordance with the procedures set forth in the Operational Manual.

(b) Beneficiaries for any Subgrant provided for under Part C of the Project must meet the eligibility criteria agreed with the Association, and set forth in the Operational Manual.

(c) The Borrower shall enter into a Subproject Agreement, satisfactory to the Association, with the proposed Beneficiary with terms and conditions which shall include the following:

- (i) the Beneficiary shall carry out the Subproject with due diligence and efficiency, in accordance with sound technical, financial, environmental, resettlement and managerial standards;
- (ii) the Beneficiary shall maintain adequate records reflecting the operations, resources and expenditures incurred under the Subproject in accordance with sound accounting practices;
- (iii) the goods, works or services financed from the proceeds of the Grant shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement, and used exclusively for the implementation of the Subproject;
- (iv) the right of the Borrower, to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, and operations thereof, and any relevant records or documents;
- (v) the right to obtain all information the Borrower or the Association shall reasonably request regarding the administration, operation and financial condition of the Beneficiary;
- (vi) the right to receive from the Beneficiary semi-annual progress reports and a final report on the completion of the Subproject; and

- (vii) the right to suspend or terminate the right of the Beneficiary to the use of the proceeds of the Subgrant for the Subproject, upon failure by the Beneficiary to perform any of its obligations under the Subproject Agreement.

F. Environmental and Social Framework, Resettlement Policy Framework and Resettlement Action Plan

10. Except as the Association shall otherwise agree, the Borrower shall:

(a) carry out or cause the Project to be carried out in accordance with the environmental, social and resettlement guidelines, rules and procedures defined in the ESMMP and RPF, including the preparation and implementation of the appropriate RAP for compensation, resettlement and rehabilitation, in accordance with the RPF, all in form and substance satisfactory to the Association;

(b) not amend or waive, or permit to be amended or waived, the ESMMP, RPF, or RAP or any provisions thereof, in a manner which, in the opinion of the Association may materially and adversely affect the implementation of the Project; and

(c) the Borrower shall ensure that: (i) all measures necessary for the carrying out of the ESMMP, RPF and RAP are taken in a timely manner; and (ii) progress reports referred to in Part C of this Schedule shall include adequate information on monitoring of the measures defined in the ESMMP, RPF and RAP.



## SCHEDULE 5

### Special Accounts

1. The Borrower shall, for the purposes of depositing the amount of the:
  - (a) Credit allocated from time to time to Categories (1) and (2) (a) set forth in the table in Paragraph A.1 of Schedule 1 to this Agreement for Part A of the Project, open and maintain in dollars a separate special deposit account (Special Account A) to be managed by EEC;
  - (b) Grant allocated from time to time to Categories (2)(b), (3)(a), (4)(a) (4)(d), and (5)(a) set forth in the table in Paragraph A.1 of Schedule 1 to this Agreement for Parts B and D.2 of the Project, open and maintain in dollars a separate special deposit account (Special Account B) to be managed by EEC; and
  - (c) Grant allocated from time to time to Categories (3)(b), (4)(b), (4)(c), (4)(e), (4)(f), (5)(b), (6), and (7) set forth in the table in Paragraph A.1 of Schedule 1 to this Agreement for Parts C, D1, D.3, and E of the Project, open and maintain in dollars a separate special deposit account (Special Account C) to be managed by MEM,

all in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment.
2. For the purposes of this Schedule, the term:
  - (a) “eligible categories” means: (i) for Special Account A, categories (1) and (2)(a) in respect of Part A of the Project; (ii) for Special Account B, categories (2)(b), (3)(a), (4)(a), (4)(d) and (5)(a) in respect of Parts B and D.2 of the Project; and (iii) for Special Account C categories (3)(b), (4)(b), (4)(c), (4)(e), (4)(f), (5)(b), (6) and (7) in respect of Parts C, D1, D3 and E of the Project, all set forth in the table in Paragraph A.1 of Schedule 1 to this Agreement;
  - (b) “eligible expenditures” means expenditures in respect of the reasonable cost of works, goods and services required for the Project and to be financed out of the proceeds of the Financing 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:

- (i) in respect of the Special Account A, an amount equivalent to \$3,000,000 to be withdrawn from the Credit Account and deposit into said Special Account pursuant to paragraph 3 of this Schedule; provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$1,500,000, until the aggregate amount of withdrawals from the Credit Account of amount allocated to Part A of the Project plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall be equal to or exceed the equivalent of SDR 3,000,000;
  
- (ii) in respect of the Special Account B, an amount equivalent to \$1,000,000 to be withdrawn from the Grant Account and deposit into said Special Account pursuant to paragraph 3 of this Schedule; provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$500,000, until the aggregate amount of withdrawals from the Grant Account of amount allocated to Parts B and D.2 of the Project plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall be equal to or exceed the equivalent of SDR2,000,000; and
  
- (iii) in respect of the Special Account C, an amount equivalent to \$1,000,000 to be withdrawn from the Grant Account and deposit into said Special Account pursuant to paragraph 3 of this Schedule; provided, however, that, unless the Association shall otherwise agree, said Authorized Allocation shall be limited to an amount equivalent to \$500,000, until the aggregate amount of withdrawals from the Grant Account of amount allocated to Parts C, D1, D3, and E of the Project plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions in respect of amounts allocated to said Categories, shall be equal to or exceed the equivalent of SDR2,000,000.

3. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

4. 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 respective 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 or the Grant 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 or the Grant 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 or 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.

5. 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.

6. Notwithstanding the provisions of paragraph 4 of this Schedule, the Association shall not be required to make further deposits into any 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 or 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 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 Special Accounts;

(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 and the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Financing allocated to the eligible Categories for the respective Special Account, 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 and the Grant Account of the remaining unwithdrawn amount of the Financing 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.

7. (a) If the Association shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 3 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 respective 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 any 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 or the Grant Account, as the case may be, for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

**Schedule 6**

**Performance Indicators**

For the purposes of this Agreement, the performance indicators to be used for the Project implementation are as follows:

<b>Output indicators</b>	<b>By Midterm</b>	<b>Closing Date</b>
<b>Asmara distribution rehabilitation and expansion</b>		
1. Proportion of substations rehabilitated	30%	100%
2. Proportion of 66 kV transformers and overhead and underground cables replaced	30%	100%
3. Proportion of LV system rehabilitated	30%	100%
4. Number of new development areas made ready for connection	4	10
<b>Rural electrification</b>		
5. Number of villages and small towns connected to power supply	30	80
6. Amount upfront contributions collected in Nakfa	5 million Nakfa	10 million Nakfa

<b>Rural Electrification Fund sub-grants</b>	Yes	Yes
7. Operational manual and criteria for site selection prepared	1.4	2.0
8. Funds deposited to Rural Electrification Fund (in million US\$ equivalent)		
<b>Sector reform and institutional capacity building</b>		
9. Regulatory unit established and staffed with qualified persons with adequate facilities	Yes	Yes
10 Number of staff trained	50	50
<b>Environmental monitoring</b>		
11. Number of VA, ZA and MEM staff trained in environmental and social screening	10	15
12. EEC's PMU retains an environmental coordinator	Yes	Yes

<b>Outcome indicators</b>	<b>By Midterm</b>	<b>Closing Date</b>
<b>Asmara distribution rehabilitation and expansion</b>		
1. Voltage fluctuations in Asmara limited to	+10	+5
2. Asmara system losses reduced to	13%	7%
3. Unplanned power interruptions in Asmara reduced by	35%	90%
4. Number of consumers connected to Asmara system	75,000	80,000

5. Annual energy sales in Asmara system	146 GWh	169 GWh
<b>Rural electrification</b>	12,000	30,000
6. Number of consumers connected in Project villages, by consumer category:		
(a) residential	11,300	28,600
(b) commercial	600	1,180
(c) industrial	50	140
<b>Rural Electrification Fund sub-grants</b>	1	4
7. Number of sub-project applications processed	0	4
8. Number of successfully completed sub-projects		
<b>Sector reform and institutional capacity building</b>		
9. Electricity tariffs in Nakfa per Kilo Watt hour meet EEC's financial needs	Yes	Yes
10. Electricity regulator functional	Yes	Yes
11. Number of trained staff retained in the electricity sector	50	70
<b>Environmental monitoring</b>		
12. Number of villages where environmental and social screening has been carried out	30	80
13. Solutions to mitigate negative environmental and social impacts carried out in a timely manner	Yes	Yes
14. Number of health, school, and water facilities electrified	40	90



## SCHEDULE 7

### Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is amended to read:

“These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.

2. Paragraph 8 of Section 2.01 is amended to read as follows:

8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.

3. The following new paragraphs are added to Section 2.01:

“15. “Grant” means the development grant provided for in the Development Financing Agreement.

16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.

17. “Financing” means, collectively, the Credit and the Grant.

18. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

4. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

5. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing Accounts”: Section 2.01(6), 4.01, Article V, Article VI, and Section 12.03.

6. The term “Development Credit Agreement”, wherever used in the General Conditions, is amended to read the Development Financing Agreement.

7. Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts.* The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

8. The phrase “(including any development financing agreement or development grant agreement)” is added to Section 6.02(a)(ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, to Section 6.02(c)(i) after the words “any development credit agreement” and before the words “with the Association”, and to Section 7.01(b)(i) after the words “any other development credit agreement” and before the words “between the Borrower and the Association”:

9. Section 6.05 is amended to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”