

CONFORMED COPY

GRANT NUMBER H028 ET

Development Grant Agreement

(Emergency Drought Recovery Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 8, 2003

GRANT NUMBER H028 ET

GRANT AGREEMENT

AGREEMENT, dated April 8, 2003, between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Recipient, dated November 27, 2002, describing a program designed to address the Emergency (as hereinafter defined) (the Program) and declaring the Recipient's commitment to the execution of the Program;

(B) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement which forms part of the Program has requested the Association to assist in: (i) the financing of the Project; and (ii) supporting the Program during the execution thereof; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Grant to the Recipient 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.(a) The following provisions of 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 in paragraph (b) below (the General Conditions), constitute an integral part of this Agreement:

- (i) Article I
- (ii) Article II
- (iii) Section 3.01
- (iv) Sections 4.01, 4.02, 4.05 and 4.06;

- (v) Article V
 - (vi) Sections 6.01, 6.02, 6.03, 6.04 and 6.06;
 - (vii) Article VIII
 - (viii) Article IX
 - (ix) Article X
 - (x) Article XI ; and
 - (xi) Sections 12.01, 12.02, 12.03, 12.04 and 12.05.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Borrower” wherever used in the General Conditions means the Recipient;
 - (ii) the term “Development Credit Agreement” wherever used in the General Conditions, means this Development Grant Agreement;
 - (iii) the term “Credit” and “credit” wherever used in the General Conditions, means the Grant; and
 - (iv) the term “Credit Account”, wherever used in the General Conditions, means the Grant Account.

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) “*Birr*” means the currency of the Recipient;
- (b) “Beneficiary Community” means a CBO (as hereinafter defined), special interest group, or group of individuals of a particular community within a *Woreda* (as hereinafter defined) inside the *Afar, Amhara, Oromia, SNNPR, Somali, and Tigray*

regions of the Recipient's territory to whom a Community Grant (as hereinafter defined) is made, or proposed to be made, under Part A of the Project;

(c) "Community Based Organization" and "CBO" (as hereinafter defined) mean a group of individuals of a particular community in the Recipient's territory which is responsible for the development of a Community Subproject (as hereinafter defined) for the carrying out of community public works or specific social activities in, *inter alia*, road rehabilitation, water catchment protection, water harvesting and storage, education, health and nutrition-related programs, and which is the recipient of a Community Grant (as hereinafter defined) for the financing of such Community Subproject;

(d) "Community Grant" means a grant made, or proposed to be made, by a *Woreda* (as hereinafter defined) to a Beneficiary Community through a Community Grant Agreement for the financing of a Community Subproject (as hereinafter defined) under Part A of the Project, utilizing proceeds of the Grant made available by the Recipient to the Regions for the benefit of eligible communities of affected *Woredas*;

(e) "Community Grant Agreement" means the agreement to be entered into between a *Woreda* (as hereinafter defined) and a Beneficiary Community for the purpose of carrying out a Community Subproject (as hereinafter defined) under Part A of the Project;

(f) "Community Subproject" means a specific project in: (i) infrastructure rehabilitation or the carrying out of other public civil works in, *inter alia*, water catchment protection, water harvesting and storage, and (ii) delivery of basic social services in, *inter alia*, health, nutrition and education;

(g) "Disaster Prevention and Preparedness Desk" and "DPPD" mean a *Woreda* level office of the Disaster Prevention and Preparedness Commission established under MRD (as hereinafter defined);

(h) "Emergency" means the humanitarian crisis caused by a climatic drought event occurring in certain areas of the Recipient's territory, which could not be satisfactorily responded to solely by using the Recipient's coping mechanisms, and about which a Joint United Nations/Ethiopia appeal to the international community for assistance was launched on December 7, 2002;

(i) "Environmental Management Plan" and "EMP" mean the plan for mitigating adverse environmental consequences arising from the implementation of Project activities, to be prepared by the Recipient, satisfactory to the Association, and as further referred to in paragraph 4 of Schedule 4 to this Agreement;

(j) “Financial Monitoring Report” and “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement;

(k) “Fiscal Year” and “FY” mean the Recipient's fiscal year beginning July 8 and ending July 7 of the next calendar year;

(l) “Food Security Department” and “FSD” mean the department inside MRD (as hereinafter defined) in charge of monitoring the activities of PMU (as hereinafter defined) under the Project;

(m) “MOFED” means the Recipient's Ministry of Finance and Economic Development;

(n) “MRD” means the Recipient’s Ministry of Rural Development;

(o) “NBE” means the National Bank of Ethiopia, the Recipient’s central bank;

(p) “NGO” means a Non-Governmental Organization established and operating pursuant to the laws of the Recipient;

(q) “Project Operation Manual” means the manual referred to in Section 6.01 (c) of this Agreement consisting of different modules setting out respectively, *inter alia*, the administrative, financial, accounting, procurement and disbursement procedures for the Project; the eligibility criteria for: (i) Beneficiary Communities (ii) Community Subprojects under Part A of the Project, and all other activities and arrangements to be used for the purpose of implementing the Project, to be adopted by the Recipient not later than the Effective Date, as the same may be amended from time to time, and such term includes any schedules to the Project Operation Manual;

(r) “PMU” means the Project Management Unit, established within FSD of MRD for the management and coordination of project activities, including the financial and procurement aspects thereof;

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

(t) “Project Year” and “PY” mean each twelve month period during Project implementation starting from the day after the Effective Date, and each subsequent twelve month period thereafter, until completion of the Project;

(u) “*Region, Woreda, and Kebele*” mean either an administrative area within the Recipient’s territory as defined in the Recipient’s Constitution or different local government levels within the Recipient’s territory established and operating pursuant to the relevant Regional Constitutions;

(v) “Resettlement Policy Framework” and “RPF” mean the policy framework for the resettlement of persons potentially displaced on account of Project implementation, to be prepared by the Recipient, satisfactory to the Association, as further referred to in paragraph 4 of Schedule 4 to this Agreement;

(w) “Public Sector Imports” means the acquisition of goods in foreign currency to be imported into the territory of the Recipient, as carried out by all branches and levels of the Recipient’s administration, including line ministries and non autonomous public agencies;

(x) “Private Sector Imports” means the acquisition of goods in foreign currency to be imported into the territory of the Recipient, as carried out by the private enterprises inside the territory of the Recipient, including financially autonomous State-owned enterprises established and operating pursuant to the Recipient’s commercial legislation;

(y) “Special Account” means the account referred to in Section 2.02(b) of this Agreement;

(z) “Vulnerable Groups” or “VG” means people living in the Recipient's territory and determined to be the most vulnerable in terms of poverty and food insecurity, pursuant to criteria defined in the Project Operation Manual, including women, youths and other socially marginalized groups; and

(aa) “*Woreda Council* ” means the council established within a *Woreda* and responsible for the approval of eligible Community Subprojects.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement an amount in various currencies equivalent to forty three million five hundred thousand Special Drawing Rights (SDR 43,500,000) (the Grant).

Section 2.02 (a) 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: (i) the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Grant, and (ii) amounts paid (or, if the Association shall so agree, to be paid) by a *Woreda* on account of withdrawals made for the benefit of Beneficiary Communities under Community Grant Agreements, to meet the reasonable cost of goods and services required for Community Subprojects, to be financed under Part A of the Project, and in respect of which the withdrawal from the Grant Account is requested.

(b) The Recipient may, for the purposes of the Project, open and maintain in Dollars a special deposit account in NBE. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2006 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association: (i) 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 Recipient from the Grant Account 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 2.05 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 Recipient; 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. Commitment charges shall be payable semiannually on February 15 and August 15 in each year.

Section 2.06. 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 Recipient 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 financial, technical, administrative agricultural, health and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Recipient and the Association shall otherwise agree, the Recipient 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 goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03 For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient 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 Recipient and the Association, a plan designed to ensure the continued achievement of Project's objectives, and

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

Section 3.04 Without limitation to its obligations under Section 3.01 of this Agreement, the Recipient, for the purposes of making available its counterpart contribution to the financing of the Project, shall:

(a) open and maintain, for the duration of the Project, an account (the Project Account) in *Birr* in NBE, on terms and conditions satisfactory to the Association;

(b) promptly thereafter, make an initial deposit into the Project Account, in an amount equivalent to *Birr* 858,000 to finance the Recipient's contribution to the Project;

(c) thereafter deposit into the Project Account by September 1st in each Fiscal Year during 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) above; and

(d) ensure that amounts deposited into the Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods and services for the Project in addition to those financed from the proceeds of the Grant.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall establish and thereafter maintain and cause to be maintained, a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each fiscal year audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts, and 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 such records, accounts and financial statements, and the audit

thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure, the Recipient shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate 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 Grant 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 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 Recipient's progress reporting obligations set out in paragraph 1 of Schedule 4 to this Agreement, the Recipient shall prepare 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 Grant Account, 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 Financial Monitoring Report 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 Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event, namely, that a situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

ARTICLE VI

Effective Date; Termination

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

(a) the Recipient has established the accounting and financial management system for the Project referred to in Section 4.01 of this Agreement, satisfactory to the Association;

(b) the Recipient has opened the Project Account pursuant to Section 3.04 (a) of this Agreement and has deposited therein the initial deposit referred to in Section 3.04 (b) of this Agreement;

(c) the Recipient has adopted the Project Operation Manual in form and substance satisfactory to the Association;

(d) the Recipient has staffed PMU with key personnel having experience and qualifications satisfactory to the Association, including: (i) a Project Coordinator, (ii) a Financial Management Officer, and (iii) a Procurement Officer, and has employed them all in accordance with the provisions of Section II of Schedule 3 to this Agreement.

Section 6.02. 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 VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Finance and Economic Development of the Recipient is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Minister of Finance and Economic Development
Ministry of Finance and Economic Development
P.O. Box 1905
Addis Ababa
Federal Democratic Republic of Ethiopia

Cable address:	Telex:	Facsimile:
	21147	251-1-551355

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.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By

/s/ Kassahun Ayele
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Callisto Madavo
Regional Vice President
Africa Region

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Grant, the allocation of the amounts of the Grant and the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Eligible Imports required for Part B of the Project as specified in the Annex to this Schedule	31,500,000	100% of foreign expenditures
(2) Goods, vehicles and equipment	200,000	100% of foreign expenditures, and 90% of local expenditures
(3) Consultants' services, training and audits	720,000	100% of foreign expenditures, 85% of local expenditures
(4) Community Subprojects	10,500,000	100 % of amounts disbursed
(5) Operating Costs	200,000	85%
(6) Unallocated	380,000	
TOTAL	<u>43,500,000</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 Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

(b) the term “local expenditures” means expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient; and

(c) the term “operating costs” means the incremental expenses incurred on account of Project implementation, including office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, per diem and supervision costs, salaries of locally contracted employees, but excluding salaries of officials of the Recipient's civil service.

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

(a) payments made for expenditures under Category (1):

(i) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 8,700,000, may be made on account of payments made for expenditures before that date but after December 7, 2002;

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

(iii) in excess of an aggregate amount equivalent to 50% of the amount allocated to such Category for any class of eligible imports specified in the Annex to this Schedule, except as the Association shall otherwise agree; and

(iv) for goods intended for military or paramilitary purposes, luxury consumption and used goods.

(b) payments for expenditures under Category (4), unless at least a minimum of 2 Community Grant Agreements shall have been entered into between a Beneficiary Community and a *Woreda*, in accordance with the procedures, terms and conditions

referred to in Schedule 4 to this Agreement and set forth in detail in the Project Operation Manual, as shall be evidenced by the first such 2 Community Grant Agreements furnished to the Association for its prior approval.

4. Expenditures for eligible imports specified in the Annex to this Schedule and to be financed out of the proceeds of the Grant shall be free from any taxes, duties or imposts levied by or in the territory of the Recipient on or in connection with the importation or delivery thereof.

5. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure, for expenditures for: (a) goods under contracts not exceeding \$100,000 equivalent each, (b) services under contracts with consulting firms not exceeding \$100,000 equivalent each, and with individual consultants not exceeding \$50,000 equivalent each, (c) grants under Community Grant Agreements, (d) training; and (e) operating costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

ANNEX TO SCHEDULE 1

Classes of Eligible Imports to be Financed Under the Project

1. Agricultural equipment and inputs including fertilizers, and excluding pesticides and herbicides.
2. Petroleum and fuel products.
3. Construction materials.
4. Transport vehicles and spare parts.
5. Livestock, animal products and veterinary supplies.
6. School supplies and equipment.
7. Medical supplies and equipment.
8. Construction equipment, industrial machinery and spare parts.
9. Electrical equipment, machinery, materials and parts.
10. Industrial raw materials and chemicals.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Recipient to respond to the Emergency and enable the Recipient to: (i) help affected families to survive the Emergency, retain productive assets, and develop sustainable livelihoods, (ii) put in place infrastructure and support mechanisms to mitigate the medium term effects of current and future drought emergencies on Vulnerable Groups, and (iii) stabilize the macro-economy.

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

Part A: Establishing Coping Mechanisms and Restoring Productive Assets

The provision of Community Grants to Beneficiary Communities for the financing of Community Subprojects intended to: (i) carry out, *inter alia*, community public works; and (ii) contribute to improve delivery of basic social services, notably in the health, nutrition and education sectors.

Part B: Contributing to Stabilization of Recipient's Macro-Economy

The importation of goods specified in the Annex to Schedule 1 to this Agreement to support, *inter alia*, the stabilization of the macro economy, the provision of basic health and social services, the provision of agricultural inputs, and the development of rural infrastructure.

Part C: Supporting Project Implementation and Management

1. supporting the establishment and operation of PMU within FSD of MRD;
2. carrying out: (i) the monitoring of Project implementation and (ii) studies on food insecurity in drought prone regions of the Recipient's territory;
3. building capacity in selected *Woreda* staff to administer and implement emergency recovery activities.

* * *

The Project is expected to be completed by June 30, 2006.

SCHEDULE 3

Procurement

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with (a) the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Grants” 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.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C and D of this Section, goods for the implementation of Parts A and C of the Project 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:

(a) Grouping of contracts

To the extent practicable, contracts shall be grouped in bid packages estimated to cost \$200,000 equivalent or more each.

(b) Preference for domestically manufactured goods

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Recipient.

Part C: Modified International Competitive Bidding

1 Except as otherwise provided in Part B and D of this Section, contracts for goods to be procured for the implementation of Part B of the Project, shall be awarded in accordance with the provisions of Section II paragraphs 2.63, 2.64 and 2.65 of the Guidelines.

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 C:

(a) Commonly traded commodities

Commonly traded commodities described in the Annex to Schedule 1 to this Agreement shall be procured under contracts awarded in accordance with Section II paragraph 2.65 of the Guidelines.

(b) Public Sector Imports

Except as otherwise provided under paragraph 2 (a) of this Part C, goods described in the Annex to Schedule 1 to this Agreement and estimated to cost less than \$750,000 equivalent per contract, may be procured under contracts awarded on the basis of International Shopping procedures, in accordance with paragraphs 3.5 and 3.6 of the Guidelines.

(c) Private Sector Imports

Except as otherwise provided under paragraph 2.(a) of this Part C, goods described in the Annex to Schedule 1 to this Agreement, and estimated to cost less than \$3,000,000 equivalent per contract, may be procured under contracts awarded in accordance with established commercial practices satisfactory to the Association.

Part D: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National or International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$5,000,000 equivalent, may be procured under contracts awarded on the basis of (i) national shopping procedures or (ii) international shopping procedures, depending on availability of such goods locally, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which are required to respond to natural disasters, including seeds and nutritional supplements may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement from UN Agencies

Goods may be procured from the United Nations' Inter-Agency Procurement Services Office (IAPSO), United Nations Population Fund (UNFPA), United Nations Office for Project Services (UNOPS) and United Nations Packing & Assembly Center (UNIPAC), in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Community Participation

Goods and works required for Part A of the Project shall be procured in accordance with procedures acceptable to the Association and as set forth in the Project Operation Manual.

6. Procurement of Small Works

Works estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 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.

Part E: 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 each contract procured under international and national competitive bidding procedures pursuant to paragraphs B and D of this Section 1, and estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to: (i) the first 3 contracts procured under shopping procedures and (ii) each contract procured under direct contracting procedures, the following procedures shall apply:

- (A) prior to the execution of any contract under shopping procedures, the Recipient shall provide to the Association a report on the comparison and evaluation of quotations received;
- (B) prior to the execution of any contract procured under direct contracting or shopping procedures, the Recipient shall provide to the Association a copy of the specifications and the draft contract; and
- (C) 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

Consultants' services shall be procured in accordance with (a) the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Recipients" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1

of Appendix 1 thereto, Appendix 2 thereto and (b) the following provisions of Section II of this Schedule.

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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality and cost-based selection of consultants.

2. The following provision 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 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for financial audits estimated to cost less than \$50,000 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 \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for the implementation of Part A of the Project 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. Service Delivery Contractors

Services to be provided by social workers and medical personnel under Part A of the Project shall be procured in accordance with procedures acceptable to the Association.

5. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded 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

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants, the terms of reference of the consultants shall be furnished to the Association for its prior review and approval.

(c) With respect to: (i) each contract estimated to cost the equivalent of \$50,000 or more; (ii) the first 3 contracts estimated to cost less than \$50,000 equivalent each, and (iii) each contract for the employment of consultants to be selected on a sole source basis, the qualifications, experience, and terms of employment of all such consultants shall be furnished to the Association for its prior review and approval. The contracts shall be awarded only after said approval shall have been given. The provisions

of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

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

Reviews

1. The Recipient 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 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, 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; and

(c) review with the Association, by March 31, 2005 or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, 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.

Institutional arrangements

2. (a) The Recipient shall establish and maintain within FSD of MRD, until the completion of the Project, the Project Management Unit which shall report to the Head of FSD. The PMU shall consist of a number of key staff, appointed in accordance with the provisions of Section II of Schedule 3 to this Agreement, including a Project Coordinator, a Financial Management Officer, a Procurement Officer, a Rural Engineer and an Officer in charge of Monitoring and Evaluation.

(b) The PMU shall be responsible for: (i) the overall coordination regarding the implementation of the different Parts of the Project; (ii) the financial management of the Project, including the auditing and accounting thereof (iii) the setting-up and implementation of a monitoring and evaluation system; (iv) the building of capacity at *Woreda* level to administer and manage emergency recovery activities and (v) the administrative management of the Project, including procurement activities .

(c) Each participating *Woreda* shall maintain until completion of the Project a Task Force, comprising the *Woreda* rural development officer as chairperson, relevant Recipient officials and people in the Vulnerable Groups. Each Participating *Woreda*, shall maintain a Disaster Prevention and Preparedness Desk with a *Woreda* coordinator, a committee and an accountant to supervise disbursements and keep financial records. The task Force shall provide guidance and supervision to the relevant DPPD.

3. The Recipient shall: (i) maintain the Project Operation Manual for the implementation of Parts A and C of the Project; (ii) take all measures necessary to ensure that the Project is carried out in conformity with the Project Operation Manual; and (iii) not amend or waive any provision thereof which in the opinion of the Association may materially and adversely affect the implementation of the Project.

Execution covenants

4. The Recipient shall furnish to the Association, by December 31, 2003, the Environmental Assessment, the associated Environment Management Plan and the Resettlement Policy Framework for all Project activities, satisfactory to the Association, and shall thereafter implement such Environment Management Plan and Resettlement Policy Framework.

5. The Recipient shall: (i) not later than the first year of Project implementation, and semiannually thereafter, carry out a review of activities under Part B of the Project; (ii) furnish the information from such review to the Association; and (iii) following such review act promptly to take all measures identified by such review.

6. The Recipient shall, not later than 6 months after the Effective Date, appoint the independent auditors referred to in Section 4.01 (b)(i) of this Agreement with experience and qualifications satisfactory to the Association, and shall employ them in accordance with the provisions of Section II of Schedule 3 to this Agreement.

7. The Recipient shall, not later than 3 months after the Effective Date, appoint the Rural Engineer and the Officer in charge of Monitoring and Evaluation referred to in paragraph 2.(a) of this Schedule 4, both with experience and qualifications satisfactory to the Association, and shall employ them in accordance with the provisions of Section II of Schedule 3 to this Agreement.

Eligibility criteria for Community Grants

8. Without limitation to the provisions of paragraph 3 of this Schedule 4, no Community Subproject shall be eligible for financing out of the proceeds of the Grant unless a *Woreda Council* shall have determined, on the basis of an appraisal conducted

by relevant *Woreda* staff in accordance with the guidelines set forth in the Project Operation Manual, that the relevant Subproject satisfies the eligibility criteria specified in the Project Operation Manual, which shall include the following:

(a) the Community Subproject shall be for: (i) the carrying out of civil works in infrastructure, including, *inter alia*, road rehabilitation, water catchment protection, water harvesting and storage and rehabilitation of existing small community managed irrigation schemes, and (ii) the improvement of basic social service delivery in, *inter alia*, health, nutrition and education;

(b) the Subproject shall be technically appraised by appropriate *Woreda* staff and approved by a *Woreda Council*; and

(c) the Community Subproject shall be in compliance with the standards set forth in the laws of the Recipient relating to health, safety and environmental protection.

Terms and conditions of the Community Grants

9. In financing Community Subprojects, *Woredas* shall enter into Community Grant Agreements with Beneficiary Communities concerned, under terms and conditions which shall include the following:

(a) financing shall be on a grant basis, not to exceed \$100,000 equivalent per grant;

(b) the requirement that the goods, works and services to be financed out of the proceeds of the Community Grant be procured in conformity with the provisions set forth in Schedule 3 to this Agreement and the Project Operation Manual and that such goods works and services shall be used exclusively in the carrying out of the Community Subproject;

(c) the right of the *Woreda* to inspect by itself, or jointly with the Association, the goods, works, sites, plants and constructions included in the Community Subproject, the operation thereof and any record or relevant document; and

(d) the right of the *Woreda* to suspend or terminate the right of the Beneficiary Community to use the proceeds of the Grant upon failure by the Beneficiary Community to perform any of its obligations under the Community Grant Agreement.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “eligible Categories” means Categories (2) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$3,000,000, to be withdrawn from the Grant Account and deposited into the Special Account pursuant to paragraph 3(a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,500,000 until the aggregate amount of withdrawals from the Grant Account allocated to Categories (2) through (5) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General shall be equal to or exceed the equivalent of SDR 3,500,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the respective Special Account such amount or amounts as the Recipient shall have requested.

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

(ii) Prior to or at the time of each such request, the Recipient 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 Recipient, withdraw from the Grant Account and deposit into the Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Grant Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Recipient out of the Special Account, the Recipient shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Recipient directly from the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Recipient 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 Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Grant allocated to the eligible Categories for the 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 Grant Account of the remaining unwithdrawn amount of the Grant allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Recipient. 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.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Recipient 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 the Special Account will not be required to cover further payments for eligible expenditures, the Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient 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 paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

SCHEDULE 6

Performance Indicators

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

Project Objectives	Key Performance Indicators
<p>Project Development Objective:</p> <p>Enable Government to help affected families survive the crisis, retain productive assets, and develop sustainable livelihoods</p> <p>Help stabilize the macroeconomy</p>	<p>Outcome/Impact Indicators (for National, Regional or Woreda level as appropriate)</p> <p>Distress migration prevented</p> <p>Student drop out rates reduced, especially for girls</p> <p>Inflation rate</p>
<p>Output from each Component:</p> <p>Defend critical Human Development expenditure by Government</p> <p>Maintain availability of critical economic inputs</p> <p>Rehabilitate and create communal assets using community labour.</p> <p>Provide income supplements, and protect private assets</p>	<p>Output Indicators (for National, Regional or Woreda level as appropriate)</p> <p>Sector budget expenditure shares and amounts for human development expenditure not reduced</p> <p>Prices for critical economic inputs kept stable</p> <p>Number of Community Subprojects implemented</p> <p>Household asset base not consumed</p>