

CONFORMED COPY

CREDIT NUMBER 2841 ET

Development Credit Agreement

(Ethiopian Social Rehabilitation and Development Fund Project)

between

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 15, 1996

CREDIT NUMBER 2841 ET

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 15, 1996, between THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.
- (b) The second sentence of Section 5.01 is modified to read:
"Except as the Association and the Borrower shall otherwise

agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

(a) "Beneficiary" means a community group to whom, or for whose benefit, a grant is made, or proposed to be made;

(b) "Birr" means the currency of the Borrower;

(c) "ESRDF" means the "Ethiopian Social Rehabilitation and Development Fund" established by the Borrower pursuant to Proclamation No. 19, of Yekatit 5, 1988 (February 13, 1996);

(d) "Financing Agreement" means an agreement to be entered into between ESRDF and an Implementing Agency for the purposes of carrying out a Subproject;

(e) "Grant" means a grant made, or proposed to be made, by ESRDF to finance a Subproject;

(f) "Implementing Agency" means a village committee or association, or other entity, responsible for the implementation of a Subproject for, or on behalf of, a Beneficiary;

(g) "Operational Manual" means the manual referred to in Section 7.01 (a) of this Agreement and setting out, inter alia, criteria, procedures, and guidelines for the administration, promotion, appraisal, and supervision of Subprojects, to be followed by ESRDF in carrying out Parts A and B of the Project;

(h) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated February 13, 1996 and February 26, 1996 between the Borrower and the Association;

(i) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(j) "Subproject" means a specific development project financed, or proposed to be financed, through Grants extended under Part A of the Project;

(k) "Subsidiary Grant Agreement" means the agreement between the Borrower and ESRDF referred to in Section 3.01 (c) of this Agreement, as the same shall be amended from time to time;

(l) "WMU" means the Welfare Monitoring Unit within the Borrower's Ministry of Economic Development and Cooperation;

(m) "CSA" means the Borrower's Central Statistical Authority;

(n) "WRC" means the Welfare Review Committee established pursuant to the Borrower's Directive of Ginbot 4, 1987 (May 12, 1995); and

(o) "Project Year" means the twelve-month period beginning from the Effective Date and ending twelve months thereafter (the First Project Year), and any twelve-month period beginning at the end of the First Project Year, or the end of subsequent Project Years.

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to eighty million eight hundred thousand Special Drawing Rights (SDR 80,800,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of Parts A and B of the Project, open and maintain in US dollars a special deposit account (Special Account A), for the purposes of Part C.1 of the Project open and maintain in US dollars a special deposit account (Special Account B), and for the purposes of Part C.2 of the Project open and maintain in US dollars a special deposit account (Special Account C), all in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against setoff, seizure or attachment. Deposits into, and payments out of each Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit 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 December 31, 2001 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next payment date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one per cent (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 January 1 and July 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the

Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 1 and July 1 commencing July 1, 2006 and ending January 1, 2036. Each installment to and including the installment payable on January 1, 2016 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end:

- (i) shall cause ESRDF to carry out Parts A and B of the Project with due diligence and efficiency and in conformity with appropriate administrative, economic, financial, technical and environmental practices, shall take, or cause to be taken, all action, including the provision of funds, facilities, services and other resources necessary, or appropriate, to enable ESRDF to carry out Parts A and B of the Project in accordance with the Operational Manual, and shall not take, or permit to be taken, any action which would prevent, or interfere with, the carrying out of Parts A and B of the Project by ESRDF; and
- (ii) shall carry out Part C of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Part C of the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall cause ESRDF to carry out Parts A and B of the Project, and shall carry out Part C, all in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(c) The Borrower shall make the proceeds of the Credit allocated for Parts A and B of the Project available to ESRDF on a grant basis under a Subsidiary Grant Agreement to be entered into between the Borrower and ESRDF, under terms and conditions which shall have been approved by the Association and which shall include a provision granting the amounts from time to time allocated to Categories (1), (2) (a), (3) (a) and (3) (b) of the table in paragraph 1 of Schedule 1 to this Agreement.

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

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions, and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and

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

Section 3.04. Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:

(a) cause ESRDF to open, and maintain for the duration of the Project implementation, an account (the ESRDF Project Account) in a commercial bank acceptable to the Association and on terms and conditions satisfactory to the Association;

(b) deposit into the ESRDF Project Account an initial amount equivalent to the Borrower's estimated share of counterpart funds required for Project implementation during the first year, as shall be agreed upon between the Borrower and the Association at the beginning of each year (the Initial Deposit), and thereafter, at annual intervals, deposit into the ESRDF Project Account such amounts as shall be agreed upon between the Borrower and the Association; and

(c) ensure that funds deposited into the ESRDF Project Account in accordance with paragraph (b) above shall be used exclusively to finance the Borrower's share of expenditures under the Project other than those financed from the proceeds of the Credit.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain, in respect of Part C of the Project, and cause ESRDF to maintain, in respect of Parts A and B of the Project, records and accounts adequate to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of Part C of the Project, and Parts A and B of the Project, respectively.

(b) The Borrower shall, and shall cause ESRDF, to:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts for each fiscal year audited, in accordance with appropriate auditing principles

consistently applied, by independent auditors acceptable to the Association;

- (ii) furnish to the Association, as soon as available, but in any case not later than six (6) months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall from time to time reasonably request.

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

- (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this Section, records and accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Accounts 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.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause ESRDF:

- (a) to take out and maintain with responsible insurers, or to make other provisions 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 and financial practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and
- (c) at all times to operate and to maintain its facilities, 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 technical and financial practices.

ARTICLE VI

Remedies of the Association

Section 6.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

- (a) The Borrower's Proclamation No.19 of Yekatit 5, 1988 (February 13, 1996) shall have been amended, suspended, abrogated,

repealed or waived so as to affect materially and adversely the ability of ESRDF to perform any of its obligations under the Subsidiary Grant Agreement;

(b) As a result of events which have occurred after the date of this Agreement, an extraordinary situation shall have arisen which shall make it improbable that ESRDF will be able to carry out Parts A and B of the Project; and

(c) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of ESRDF or the suspension of its operations.

Section 6.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified, namely that the events specified in paragraphs (a) and (c) of Section 6.01 of this Agreement shall occur.

ARTICLE VII

Effective Date; Termination

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

(a) The Board of ESRDF has: (i) adopted an operational manual, acceptable to the Association, setting out, inter alia, procedures and guidelines, for the administration, promotion, appraisal, and supervision of Subprojects to be followed by ESRDF in carrying out Parts A and B of the Project; and (ii) approved ESRDF's work program and budget for the first year of the Project implementation;

(b) The Subsidiary Grant Agreement has been duly executed by the Borrower and ESRDF;

(c) (i) the ESRDF Project Account referred to in Section 3.04 (a) of this Agreement, has been opened, and (ii) the Borrower has made the Initial Deposit referred to in Section 3.04 (b) of this Agreement;

(d) the Borrower has established accounting and management systems for Project implementation, acceptable to the Association; and

(e) standard bidding documents for procurement under the Project, which are acceptable to the Association, have been finalized.

Section 7.02. The following is specified as an additional matter, 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, namely that the Subsidiary Grant Agreement has been duly authorized or ratified by the Borrower and ESRDF and is legally binding upon the Borrower and ESRDF in 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. The Minister of 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:

Minister of Finance
P.O Box: 1905

Addis Ababa
Ethiopia

Telex:

21147

For the Association:

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

Cable address:

Telex:

INDEVAS 248423 (RCA)
Washington, D.C. 82987 (FTCC)
64145 (WUI) or
197688 (TRT)

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in the District of Columbia, United States of America, as of the day and year first above written.

THE FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Berhane Gebre-Christos
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ James W. Adams
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Categories	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Goods and Works for Subprojects under Part A of the Project	56,230,000	100% of foreign expenditures and 90% of local expenditures
(2) Consultants' services, Technical Assistance and Training		100%
(a) under Parts A and B of the Project	3,230,000	

(b) under Part C.1 of the Project	350,000	
(c) under Part C.2 of the Project	200,000	
(3) Equipment, Vehicles, Furniture and Materials		100% of foreign expenditures and 90% of local expenditures
(a) under Part B.3 of the Project	7,800,000	
(b) under Parts A, B.1, and B.2 of the Project	3,320,000	
(c) under Part C.1 of of the Project	80,000	
(d) under Part C.2 of the Project	90,000	
(4) Refunding of Project Preparation Advance	670,000	Amounts due pursuant to Section 2.02 (c) of of this Agreement
(5) Unallocated	8,830,000	
TOTAL	<u>80,800,000</u> =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory of which the goods and services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures".

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 (1) in respect of: (i) Sub-projects involving water abstractions from the rivers specified in paragraph 9 of Schedule 4 to this Agreement which shall have not been approved by the Association pursuant to the provisions of said paragraph; (ii) Subprojects involving water abstractions from the rivers specified in paragraph 9 of Schedule 4 to this Agreement, after the aggregate of the water abstractions from each of said rivers shall have reached the limits indicated in paragraph 9 of Schedule 4 to this Agreement; and (iii) Subprojects involving water abstractions from the Wabi-Schebele-Genale (Juba) rivers.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for goods and works under contracts not exceeding \$100,000 equivalent, and for services: (i) for firms under contracts not exceeding \$50,000, and (ii) for individuals under contracts not exceeding \$25,000 equivalent, 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: (a) help alleviate poverty and support community development through provision of financial and technical resources to support community initiated projects; and (b) strengthen the Borrower's capacity for welfare analysis and monitoring.

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: Social and Economic Infrastructure and Services

Promotion, appraisal, designing, supervision, and evaluation of community initiated projects, and provision of Grants for the financing thereof, for: (a) the construction and rehabilitation of essential local economic and social infrastructure, including, inter alia, projects relating to: (i) basic health care and primary education facilities, (ii) rural water supply and urban sanitation systems, and (iii) small-scale irrigation schemes; and (b) improved service delivery of primary education and health.

Part B: Capacity Building

1. Provision of training, technical advisory services, equipment, furniture, material and vehicles to: (a) build the capacity of ESRDF to select, monitor and supervise Subprojects; (b) provide local community leaders, community groups, and associations with skills and knowledge required to carry out their responsibilities in Subprojects identification, preparation, implementation, monitoring and evaluation; and (c) build critical technical capacity of regional administrations and non-governmental entities involved in the implementation of Part A of the Project.

2. Carrying out of a program of studies and surveys to assess the impact on living standards of poor people of the activities financed under the Project.

3. Provision of equipment to strengthen the capacity of local contractors to carry out Subproject in selected areas of the territory of the Borrower.

Part C: Welfare Monitoring System

1. Carrying out of studies and data analysis on living conditions, including an annual review of social trends and welfare levels.

2. Strengthening the capacity of the Borrower in collection, processing, analysis, and dissemination of data on living conditions, through provision of training, and equipment, and assistance in the carrying out of surveys.

* * *

The Project is expected to be completed by June 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Association in January 1995 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. 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 Borrower and to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$10,000,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines; and (b) works estimated to cost less than \$500,000 equivalent per contract, up to an aggregate amount not to exceed \$51,670,000 may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guideline.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$14,000,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement of Small Works

Works estimated to cost \$100,000 equivalent or less per contract, and not to exceed \$15,000,000 in the aggregate, shall be procured under lump sum, fixed price contracts awarded on the basis of quotations obtained from three 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 successfully complete the contract.

4. Community Participation

Works for Subprojects estimated to cost \$50,000 per contract, up to an aggregate amount not to exceed \$6,000,000 equivalent, and goods for Subprojects estimated to cost less than \$10,000, up to an aggregate amount not to exceed \$1,000,000 equivalent, shall be procured in accordance with the procedures set forth in the Operational Manual.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

The procedures set forth in paragraphs 2 and 3 of Appendix 1 to

the Guidelines shall apply to: (i) each contract for works and goods estimated to cost the equivalent of \$100,000 or more; and (ii) the first five contracts for Subprojects in each of the Borrower's regions, regardless of their estimated cost.

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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank on Borrowers and by the World Bank as Executing Agency" published by the Association in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Association, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Association, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to: (a) contracts for the employment of consulting firms estimated to cost less than \$50,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than \$25,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$50,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$25,000 equivalent or above.

SCHEDULE 4

Implementation Program

A. Overall Project Implementation

1. The Borrower shall cause ESRDF to implement Parts A and B of the Project in close collaboration with the Borrower's central and regional administrations.

2. Except as the Association shall otherwise agree, for the purposes of Parts A and B of the Project, the Borrower shall: (i) cause ESRDF to apply the criteria, policies, procedures and guidelines set out in the Operational Manual; and (ii) not amend, or abrogate, or permit to be amended or abrogated, the Operational Manual, or any provision thereof, in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of Parts A and B of the Project.

3. The Borrower shall ensure that the positions of General Manager, Deputy General Manager and Regional Managers of ESRDF shall, at all times during the execution of the Project, be kept filled by persons having qualifications and experience satisfactory to the Association.

4. The Welfare Monitoring Unit (WMU) of the Borrower's Ministry of Economic Development and Cooperation shall be responsible for the implementation of Part C.1 of the Project, and the Borrower's Central Statistical Authority shall be responsible for the implementation of Part C.2 thereof, all under the overall supervision of the Welfare Review Committee.

5. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators satisfactory to the Association, the carrying out of the Project and the achievement of the objectives thereof;

(b) not later than April 30 of each year, commencing on April 30, 1997 undertake, in conjunction with the Association and ESRDF, a joint annual review on all matters relating to the progress of the Project and, in particular the progress achieved by the Borrower and ESRDF during the current fiscal year, having regard to the monitoring indicators referred to in subparagraph (a) of this paragraph;

(c) not later than one month prior to each annual review, shall furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, on the progress of the Project;

(d) following each annual review, act promptly and diligently in order to take, or assist ESRDF in taking, any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or to implement, or assist ESRDF in implementing, such measures as may have been agreed upon between the parties in furtherance of the objectives of the Project; and

(e) promptly after the Effective Date, take all measures necessary on its part to organize, in conjunction with the Association and ESRDF, a workshop for the launching of the Project implementation which shall cover, inter alia, disbursement and procurement procedures and detailed timetables for the implementation of the Project.

6. The Borrower shall: (a) not later than eighteen months after the Effective Date, cause ESRDF to carry out, under terms of reference satisfactory to the Association, an assessment of procurement under the Project, with a view to evaluate the effectiveness of the various procurement activities under the Project, identify problems, and make recommendations accordingly; and

(b) based on the assessment, and in consultation with the Association, take all measures as may be deemed necessary or desirable to expedite procurement actions and to ensure that the objectives of the Project are achieved with due diligence and efficiency.

7. Midterm Review

(a) On or about thirty months after the Effective Date, the Borrower shall carry out jointly with the Association and ESRDF a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review).

The Midterm Review shall cover, amongst other things:

- (i) a review of the Subprojects financed under the Project, including the geographical distribution,
- (ii) a discussion of the options for ensuring the long-term sustainability of ESRDF, and
- (iii) a review of arrangements for meeting recurrent costs.

(b) The Borrower shall, at least four weeks prior to the Midterm Review, furnish to the Association a separate report describing the status of implementation of each component of the Project and a summary report of Project implementation generally.

(c) The Borrower shall, not later than four weeks after the Midterm Review, prepare an action program, acceptable to the Association, for the further implementation of the Project having regard to the findings of the Midterm Review and, thereafter, implement such action program.

B. Part A of the Project

8. Eligibility Criteria for Subprojects

Without limitation upon the provisions of paragraph 2 above, no Subproject shall be eligible for financing out of the proceeds of the Credit unless ESRDF has determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Operational Manual, that the Subproject satisfies the eligibility criteria specified below and in more detail in the Operational Manual, which shall include, inter alia, the following:

- (a) the Subproject shall be for social and economic infrastructure and services;
- (b) the Subproject shall be initiated by a Beneficiary;
- (c) the Subproject shall be economically, financially and technically viable, and environmentally sound, in accordance with the standards specified in the Operational Manual;
- (d) the Beneficiary shall provide at least 10% of the estimated Subproject costs in the form of cash, materials, labor or other services;
- (e) the Subproject shall be in compliance with the standards set forth in the applicable laws and regulations of the Borrower relating to health, safety and environmental protection;
- (f) Subprojects involving water abstractions from the Wabi-Shebele-Genale (Juba) rivers shall not be eligible for financing under the Project; and
- (g) Subprojects involving involuntary resettlement of population shall not be eligible for financing under the Project, unless an action plan for the resettlement of the affected population, satisfactory to the Association, has been agreed upon with the concerned population.

9. (a) The Borrower shall take all necessary measures to ensure that the aggregate water abstractions from each of the following rivers in respect of Subprojects shall not exceed the following limits:

Rivers	Maximum water abstractions (Million cubic meters)
Baro	3.7
Abay	48.2
Tekeze	40.2
Awash	13.4
Omo	30.1

(b) To this end, the Borrower shall cause ESRDF to furnish to the Association:

(i) as part of its annual work program to be submitted to the Association for its approval pursuant to subparagraph 11 (a) of this Schedule, all proposals of Subprojects involving water abstractions from the rivers specified in paragraph (a) above for the concerned Project Year, along with the estimates of water abstractions for each such Subprojects; and

(ii) at the end of each Project Year, for its review, a report in such detail as the Association shall reasonably request, including, inter alia, the aggregate amounts abstracted from said rivers for Subprojects financed out of the proceeds of the Credit during the previous Project Year, or Project Years.

(c) Not later than four (4) weeks prior to the Midterm Review referred to in paragraph 7 of this Schedule 4, the Borrower shall

furnish to the Association a report in such detail as the Association shall reasonably request, including, inter alia, data relating to Subprojects approved and financed or to be financed under the Project and indicating the aggregate amount of water abstractions under such Subprojects for each river specified in paragraph (a) above.

10. Terms and Conditions of Grants made for Subprojects

Subprojects shall be carried out pursuant to Financing Agreements, to be concluded between ESRDF and the Implementing Agency, under terms and conditions satisfactory to the Association, which, inter alia, shall include the following:

- (a) financing to be on a grant basis;
- (b) the obligation to carry out the Subproject in accordance with the Operational Manual, with due diligence and efficiency and in accordance with sound environmental, technical, financial and managerial standards and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Subproject;
- (c) the requirement that: (i) the goods, works and services to be financed from the proceeds of the Credit shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement; and (ii) such goods, works and services shall be used exclusively in the carrying out of the Subproject;
- (d) the right of ESRDF to inspect, by itself, or jointly with the Association, if the Association shall so request, the goods, works sites, plants and construction included in the Subproject, the operations thereof and any relevant records and documents;
- (e) the right of ESRDF to obtain all information as ESRDF or the Association shall reasonably request regarding the administration, operations and financial conditions of the Subproject; and
- (f) the right of the ESRDF to suspend or terminate the right of the Implementing Agency to use the proceeds of the Credit for the Subproject upon failure by the Implementing Agency to perform any of its obligations under its Financing Agreement.

11. The Borrower shall cause ESRDF to submit to the Association, for its review or approval, as the case may be:

- (a) before the beginning of each Project Year, a proposed annual work program, including a proposed budget and financing plan, for the forthcoming fiscal year; and
- (b) semiannual and annual progress reports on the status of Parts A and B of the Project, including regular beneficiary assessment and beneficiary feedback reports and Subprojects completion reports.

12. (a) not later than eighteen months after the Effective Date, the Borrower shall cause ESRDF to carry out, under terms of reference satisfactory to the Association, an assessment of the technical quality of any infrastructure constructed under Subprojects; and

(b) based on the assessment, the Borrower shall, in consultation with the Association, take all measures as may be deemed necessary or desirable to expedite and improve the technical quality of said infrastructure.

13. Equipment and materials required for the execution of irrigation and water Subprojects in remote areas of the territory of the Borrower, as shall be specified by agreement between the Borrower and the Association, may be procured directly by the ESRDF, in accordance with the provisions of Part B of Schedule 3 to this Agreement, and leased to contractors employed by Implementing Agencies for the execution of such Subprojects, under terms and conditions acceptable to the Association.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) (a), (3) (a), and (3) (b) with respect to Special Account A, Categories (2) (b), and (3) (c) with respect to Special Account B, and Categories (2) (c) and (3) (d) with respect to Special Account C set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$9,000,000 in respect of the Special Account for Parts A and B of the Project (Special Account A), an amount equivalent to \$100,000 in respect of the Special Account for Part C.1 thereof (Special Account B), and an amount equivalent to \$100,000 in respect of the Special Account for Part C.2 thereof (Special Account C), to be withdrawn from the Credit Account and deposited into the Special Accounts 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 \$5,000,000 in respect of Special Account A, until the aggregate amount of withdrawals from the Credit Account allocated to Categories (1), (2) (a), (3) (a), and (3) (b) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Parts A and B of the Project shall be equal to or exceed the equivalent of SDR 10,000,000.

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

3. After the Association has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the 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 a deposit or deposits into the respective Special Account of an amount which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount or amounts as the Borrower shall have requested.

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

(ii) Prior to, or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into 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 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 pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective Special Account, minus the total amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the 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 for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

