

CONFORMED COPY

CREDIT NUMBER 2823 ER

Development Credit Agreement

(Community Development Fund Project)

between

THE STATE OF ERITREA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 26, 1996

CREDIT NUMBER 2823 ER

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated March 26, 1996, between THE STATE OF ERITREA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the modifications thereto 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) "Village Administration" means a locally elected council of representatives in a village or district, established pursuant to the provisions of the Local Government Decree;

(b) "Beneficiary" means: (i) in respect of Part B of the Project, a community which is represented by a Community Development Committee, and (ii) in respect of Part C of the Project, a Solidarity Group or a small enterprise or an individual engaged in carrying out income-generating activities, all selected in accordance with the respective criteria specified in Schedule 4 to this Agreement;

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

(d) "Community Development Committee" means an elected committee recognized by the Village Administration, established under the provisions of the Local Government Decree to represent a group of people organized for the purposes of implementing a Subproject;

(e) "ECDF" means the Eritrea Community Development Fund, a unit established by the Borrower within its Ministry of Local Government by a directive dated January 2, 1996, whose objective is to manage the funding of community-based projects to improve the economic and social conditions of the poor people;

(f) "Financial Intermediary" and "FI" mean: a village credit association, a credit union or a peasant association, or any other entity engaged in lending activities to Beneficiaries and which meet the respective eligibility criteria specified in Schedule 4 to this Agreement;

(g) "Grant" means a grant made or proposed to be made by the Borrower to a Beneficiary for a Subproject under Part B of the Project;

(h) "Operational Manual" means the manual adopted by the Borrower on January 2, 1996 containing, inter alia, criteria, procedures and guidelines for the administration, promotion, appraisal and supervision of Subprojects and Microcredit Subprojects;

(i) "Microcredit Subproject" means an economic, business or income-generating development project to be financed under Part C (iii) of the Project and which complies with the eligibility criteria specified in Schedule 4 to this Agreement;

(j) "Microsubloan" means a loan made or proposed to be made by an FI to a Beneficiary for financing a Microcredit Subproject under Part C (iii) of the Project;

(k) "Microsubloan Agreement" means an agreement to be entered

into between an FI and a Beneficiary for the purpose of financing a Microcredit Subproject under Part C (a) of the Project;

(l) "MOLG" means the Borrower's Ministry of Local Government;

(m) "Project Account" means the account referred to in Section 3.04 of this Agreement;

(n) "Solidarity Group" means a group of people organized for the purpose of applying for financing to implement Microcredit Subprojects under Part C (iii) of the Project;

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

(p) "Subsidiary Financing Agreement" means any agreement entered into between ECDF and an FI pursuant to paragraph C.3 of Schedule 4 to this Agreement.

(q) "Subsidiary Loan" means a loan made or proposed to be made by ECDF to an FI using the proceeds of the Credit allocated to Part C (iii) of the Project;

(r) "Subproject" means a development project, under Part B of the Project, which complies with the eligibility criteria specified in Part B.1 of Schedule 4 to this Agreement; and

(s) "Subproject Agreement" means an agreement to be entered into between the ECDF and a Village Administration for the purpose of carrying out a Subproject under Part B of the Project.

(t) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated January 2, 1996 between the Borrower and the Association.

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 eleven million eight hundred thousand Special Drawing Rights (SDR 11,800,000).

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 (other than Part C (iii) thereof) and to be financed out of the proceeds of the Credit, and amounts paid (or, if the Association shall so agree, to be paid) by an FI on account of withdrawals made by a Beneficiary under a Microsubloan to meet the reasonable cost of goods required for a Microcredit Subproject and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the 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 therein. 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 February 15 and August 15 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 February 15 and August 15, commencing August 15, 2006 and ending February 15, 2036. Each installment to, and including the installment payable on, February 15, 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 Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the 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, shall carry out the Project with due diligence and efficiency and in conformity with appropriate financial, administrative, environmental and economic practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

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

Section 3.03. 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 for the future operation of the Project; 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) open and maintain, until completion of the Project, an account (the Project Account) in a commercial bank acceptable to the Association and on terms and conditions acceptable to the Association;

(b) deposit into the Project Account an initial amount equivalent to the Borrower's estimated share of counterpart funds for the first three months of Project implementation as agreed upon between the Borrower and the Association (the Initial Deposit) and thereafter, at quarterly intervals, deposit into the Project Account such amounts as are estimated to be required for the ensuing quarter or such other amounts as shall be agreed between the Borrower and the Association; and

(c) ensure that the amounts deposited into the Project Account, in accordance with paragraph (b) of this Section, shall be used exclusively for expenditures under the Project not otherwise financed from the proceeds of the Credit.

Section 3.05. The Borrower undertakes that, unless the Association shall otherwise agree, Subprojects and Microcredit Subprojects shall be promoted, identified, appraised, financed, carried out and maintained in accordance with the relevant provisions of Schedule 4 to this Agreement and the procedures set forth in the Operational Manual.

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Account, for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than six months after the end of each such year, 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 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.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified:

(a) the Borrower's directive establishing ECDF shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ECDF to perform any of its obligations; and

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

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified, namely, that the events specified in paragraph (a) or (b) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. 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 Borrower has established a unit data base of unit costs, acceptable to the Association, for at least 40 items which will be required for carrying out the Project on the basis of information collected from suppliers and contractors;

(b) the Project Account referred to in Section 3.04 has been established, and the Initial Deposit has been deposited therein;

(c) the Borrower has adopted and made operational an accounting and management information system for the Project, acceptable to the Association; and

(d) the Borrower has adopted a consolidated budget and work program for the first year of Project implementation, acceptable to the Association.

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 Borrower; Addresses

Section 7.01. The Minister responsible for finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. 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 895

Asmara
Eritrea

Telex:

583492421150

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (RCA)
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 STATE OF ERITREA

By /s/ Amdemicael Kahsai

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Works and goods for Subprojects under Part B of the Project	8,740,000	100% of foreign expenditures and 90% of local expenditures
(2) Microsubloans under Part C (iii) of the Project	340,000	100% of amounts paid by FIs

(3)	Training and consultants' services under Part A of the Project	340,000	100%
(4)	Office equipment and vehicles under Part A of the Project	680,000	100% of foreign expenditures and 90% of local expenditures
(5)	Refunding of Project Preparation Advance	200,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(6)	Unallocated	1,500,000	
	TOTAL	11,800,000	=====

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 country 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, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 1,2000,000 may be made in respect of Categories (1), (2) and (4) on account of payments made for expenditures before that date, but after December 1, 1995; and (b) Microsubloans unless the Borrower has established a separate microcredit unit within ECDF.

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 \$200,000 equivalent, and for services: (i) for firms under contracts not exceeding \$50,000 equivalent, 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 objective of the Project is to assist the Borrower in financing community-based Subprojects and Microcredit Subprojects to: (a) support the rehabilitation and development of basic social and economic infrastructure in areas of the territory of the Borrower, and (b) improve the income-generating capacity of poor people in its territory.

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: Institutional Support

1. Strengthening of MOLG and ECDF in Subproject and

Microcredit Subproject identification, preparation, appraisal and supervision through training of staff and acquisition of equipment and vehicles.

2. Training for facilitators and Beneficiaries in Subproject and Microcredit Subproject implementation.

3. Establishing a computerized management information system for ECDF.

4. Carrying out a program of research to assess the progress in achieving the objectives of the Project.

Part B: Social and Economic Infrastructure and Services

Promotion, appraisal, provision of Grants, supervision, and evaluation of community-based Subprojects for: (A) the construction and rehabilitation of essential economic and social infrastructure, including, inter alia: (i) basic health care and basic education facilities, (ii) rural water supply systems, and (iii) rehabilitation of rural feeder roads; and (B) basic skills training and preschool childcare.

Part C: Pilot Savings and Credit Program

Carrying out of a pilot savings and credit program in selected areas of the territory of the Borrower aimed at supporting investment in economic activities at the village or town level through: (i) training in microfinance methods; (ii) provision of technical advisory services and training to Village Administrations and other FIs to improve their efficiency, sustainability and outreach; and (iii) promotion, appraisal, provision of Microsubloans, supervision and evaluation of Microcredit Subprojects.

* * *

The Project is expected to be completed by June 30, 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 Bank 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

Works estimated to cost less than \$300,000 equivalent per contract, up to an aggregate amount not to exceed \$6,500,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$4,000,000 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 \$75,000 equivalent or less per contract, and not to exceed \$2,750,000 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. Direct Contracting

Goods for Subprojects estimated to cost \$15,000 equivalent or less per contract, up to an aggregate amount not to exceed \$500,000 equivalent, and works for Subprojects estimated to cost \$50,000 equivalent or less per contract, up to an aggregate amount not to exceed \$1,000,000 equivalent, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

5. Force Account

Works which meet the requirements of paragraph 3.08 of the Guidelines, and costing \$750,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be carried out by force account in accordance with the provisions of said paragraph of the Guidelines.

Part E: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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

With respect to each contract for goods and works 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.

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 Borrowers and by the World Bank as Executing Agency" published by the Bank 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 thereto 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, shortlists, 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 individual consultants 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

Part A: Overall Project Implementation

1. (a) MOLG shall be responsible for the overall coordination of the Project; and

(b) ECDF shall have the responsibility for implementation, record keeping and preparation of reports for the Project and shall report to MOLG and the Ministry of Finance on all its activities under the Project.

2. Procurement Assessment

(a) On or about the date twelve (12) months after the Effective Date, the Borrower shall carry out, under terms of reference satisfactory to the Association, an assessment of procurement under the Project. Said assessment shall evaluate the efficiency of the various procurement methods and identify any problems.

(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 procurement and to ensure that the objectives of the Project are achieved with due diligence and efficiency.

3. Annual Review

(a) The Borrower shall, not later than November 30th of each year, commencing on November 30, 1997, undertake, in conjunction with the Association, a joint annual review on all matters relating to the progress of the Project and, in particular, the progress achieved by the Borrower during the current fiscal year, in accordance with the monitoring

indicators agreed upon between the Borrower and the Association. Said review shall cover, inter alia, the interest rates charged by the Borrower on Microsubloans.

(b) Not later than one month prior to each review, the Borrower shall furnish to the Association, for its review and approval, as the case may be, a report in such detail as the Association shall reasonably request, including: (i) a review of progress achieved in the implementation of the Project; and (ii) a proposed work program, involving a proposed budget and financing plan, for the following year.

(c) Following each review, the Borrower shall act promptly and diligently in order to take any corrective action deemed necessary to remedy any shortcomings identified in the implementation of the Project or to implement such measures as may have been agreed upon between the parties in furtherance of the objectives of the Project.

4. Midterm Review

(a) On or about thirty (30) months after the Effective Date, the Borrower shall carry out jointly with the Association and ECDF 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 and Microcredit Subprojects financed under the Project, including the geographical distribution;
- (ii) a review of the effectiveness of the Project in achieving its objectives;
- (iii) a discussion of the options for ensuring the long-term sustainability of ECDF; and
- (iv) 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 part 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.

5. Operational Manual

Except as the Association shall otherwise agree, in carrying out Parts B and C of the Project, ECDF shall apply the procedures and guidelines set out in the Operational Manual, and the Borrower shall not assign, amend, abrogate or waive the Manual or any provision thereof which, in the opinion of the Association, will materially or adversely affect the implementation of the Project.

6. ECDF Management

The Borrower shall ensure that the General Manager, the Deputy General Manager and the Regional Managers of ECDF shall, at all times during the execution of the Project, have qualifications and experience satisfactory to the Association.

Part B: Subprojects under Part B of the Project
Eligibility Criteria for Subprojects

1. Without limitation upon the provisions of paragraph 5 of Part A above, Subprojects shall be eligible for financing out of the proceeds of the Credit only if they are determined by ECDF, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Operational Manual, to satisfy 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 infrastructure and services, such as primary health, basic education, rural water supply, soil, water and forestry conservation and for feeder roads;

(b) the Subproject shall be initiated by a Beneficiary which shall include a village, group of villages, a district area, cluster of communities or a neighborhood in an urban area or their representing institutions;

(c) the Subproject shall be economically, financially and technically viable in accordance with standards defined in the Operational Manual;

(d) the Beneficiary community must provide at least 10% of the estimated Subproject costs in the form of cash, materials, labor and other services; and

(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.

Terms and Conditions of Grants made for Subprojects

2. In financing Subprojects, the Borrower shall enter into a Subproject Agreement with a Village Administration or other appropriate administrative institutions legally constituted under the Local Government Decree. The terms and conditions of the Subproject Agreement shall include provisions pursuant to which:

(a) the Community Development Committee shall be responsible for Subproject implementation;

(b) financing shall be on a grant basis;

(c) each Community Development Committee shall be responsible for implementing the Subproject in accordance with the provisions of the Subproject Agreement and the Operational Manual, with due diligence and efficiency in accordance with sound technical, financial, environmental and managerial standards, and for maintaining adequate records;

(d) each Community Development Committee shall have the obligation to report to ECDF on the progress made in the implementation of the Subproject;

(e) ECDF shall have the right to obtain all such information as ECDF or the Association shall reasonably request regarding Subproject implementation, administration, operations and the financial condition of the Community Development Committee and the benefits to be derived from the Subproject;

(f) the goods, civil works and services to be financed out of the proceeds of the Credit for Subprojects shall be procured in accordance with the provisions of Schedule 3 to this Agreement; and

(g) ECDF shall have the right to suspend or terminate the right of the Community Development Committee to use the proceeds of the Credit for a Subproject upon failure by any

such Community Development Committee to perform any of its respective obligations under the Subproject Agreement.

Part C: Microcredit Subprojects under Part C of the Project

ECDF Management with respect to Microcredit Subprojects

1. The Borrower shall cause ECDF to establish a separate unit within ECDF prior to the launching of the microcredit component under Part C of the Project, with terms of reference acceptable to the Association, to be responsible for the carrying out of the activities under Part C of the Project.

Eligibility Criteria for Microcredit Subprojects

2. Microsubloans shall be made to Solidarity Groups consisting of individuals who have demonstrated a capacity to save for a minimum of at least three months. Such Microcredit Subprojects shall aim at improving the economic status and livelihood of Beneficiaries. In addition, individual or community-based subloans will be made for the financing of income-generating or employment-generating activities, such as installation of irrigation pumps, oil extraction presses, grain mills, food processing equipment, carpentry and tailoring operations.

Principal Terms and Conditions of Microcredit Financing Agreements and Microsubloans

3. For the purpose of carrying out Part C (iii) of the Project, the Borrower shall cause ECDF to:

(a) relend to the FIs the equivalent of the proceeds of the Credit allocated from time to time to Category (2) of the table set forth in paragraph 1 of Schedule 1 to this Agreement under Subsidiary Financing Agreements to be entered into between ECDF and each such FI, under terms and conditions which shall have been approved by the Association and which shall include, without limitation, those set forth in the Annex to this Schedule;

(b) monitor the overall execution of said Part of the Project and the carrying out by the FIs of their undertakings pursuant to their respective Subsidiary Financing Agreements in accordance with policies and procedures satisfactory to the Association;

(c) take, or cause to be taken, all action necessary or appropriate on its part to enable the FIs to perform, in accordance with the provisions of their respective Subsidiary Financing Agreements, all the obligations of the FIs therein set forth, and not take, or permit to be taken, any action which would prevent or interfere with such performance; and

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

ANNEX TO SCHEDULE 4

Principal Terms and Conditions of the Subsidiary Financing Agreements

The principal terms and conditions set forth in this Schedule shall apply for the purposes of paragraph C.3 (a) of Schedule 4 to this Agreement.

A. Terms

1. The principal amount to be relented out of the proceeds of the Credit to an FI under its respective Subsidiary Financing Agreement shall be:

(a) the equivalent of the aggregate amount of the principal of all Microsubloans (net of reflows) made out of the proceeds thereof; and

(b) denominated in the currency of the Borrower.

2. Each FI shall be charged interest on the aggregate principal amount of the Subsidiary Loan withdrawn and outstanding from time to time, at a rate which shall be determined from time to time by the ECDF, taking into account the estimated inflation rate for the year in question, the administrative and operating costs of the ECDF and the loan loss provisions, such rate to be reviewed annually by ECDF and the Association.

3. The right of an FI to the use of the proceeds of its respective Subsidiary Loan shall be: (a) suspended upon failure of such FI to: (i) perform any of its obligations under its respective Subsidiary Financing Agreement, or (ii) continue to be in compliance with the eligibility requirements for FIs; and (b) terminated if such right shall have been suspended pursuant to subparagraph (a) hereof for a continuous period of 60 days.

B. Eligibility Requirements for FIs

1. A Subsidiary Financing Agreement may be entered into with an FI which ECDF shall have determined meets, inter alia, the following eligibility criteria in accordance with the Operational Manual:

(a) the FI has adequate capacity to oversee the creation and operation of Solidarity Groups for the purposes of obtaining financing from the FI;

(b) the FI has adequate capacity to manage savings and credit activities, including savings deposits and withdrawals, loan disbursements and collection;

(c) the FI has an adequate number of suitably qualified staff to enable it to carry out its activities with due diligence and efficiency; and

(d) the FI has the capacity to maintain adequate records and accounts in accordance with appropriate accounting practices.

Conditions of Subsidiary Financing Agreements

2. Each respective Subsidiary Financing Agreement shall contain provisions pursuant to which each respective FI shall undertake to:

(i) carry out its activities under Part C of the Project and conduct its operations and affairs in accordance with appropriate financial standards and practices;

(ii) make Microsubloans to Beneficiaries on the terms and conditions set forth in the Attachment to this Annex;

(iii) exercise its rights in relation to each such Microsubloan in such manner as to protect its interests and the interests of the Borrower and the Association, comply with its obligations under its respective Subsidiary Financing Agreement and achieve the purposes of Part C (iii) of the Project;

(iv) not assign, amend, abrogate or waive any of its agreements providing for Microsubloans, or any provision thereof, without prior approval of ECDF;

(v) appraise Microcredit Subprojects and supervise, monitor and report on the carrying out by Beneficiaries of Microcredit Subprojects, in accordance with the Operational Manual and such other procedures satisfactory to the Association and ECDF;

(vi) exchange views with, and furnish all such information to, ECDF as may be reasonably requested by the Association or ECDF with regard to the progress of its activities under Part C of the Project, the performance of its obligations under its respective Subsidiary Financing Agreements and other matters relating to the purposes of Part C of the Project;

(vii) promptly inform ECDF of any condition which interferes or threatens to interfere with the progress of its activities under its respective Subsidiary Financing Agreements;

(viii) maintain records and accounts to reflect, in accordance with sound accounting practices, its operations and financial condition; and

(ix) furnish to ECDF such other information concerning said records, accounts and financial statements as the Association or ECDF shall from time to time reasonably request.

ATTACHMENT TO THE ANNEX TO SCHEDULE 4

Terms and Conditions of the Microsubloans

The provisions of this Attachment shall apply for the purposes of paragraph 2 (ii) of Part B of the Annex to Schedule 4 to this Agreement.

1. The principal amount of each Microsubloan shall: (a) be denominated and be equivalent in the currency of the Borrower (determined as of the date or respective dates of withdrawal from the Credit Account or payment out of the Special Account) of the value of the currency or currencies so withdrawn or paid out on account of the cost of works, goods and services financed out of such proceeds for the Microcredit Subproject; and (b) not exceed the equivalent of Birr 6,000 to Solidarity Groups and Birr 100,000 to individuals.

2. Each Microsubloan shall be: (a) charged interest on the principal amount thereof withdrawn and outstanding from time to time, at a rate that takes into account the interest charged by ECDF to the FI, the administration and operation costs and loss provisions of the FI; and (b) made for terms not exceeding two years.

3. Microsubloans shall be made to Beneficiaries who meet the eligibility criteria specified in Part C.2 of Schedule 4 to this Agreement.

4. Microsubloans shall be made for Microcredit Subprojects under Part C (iii) of the Project which are each determined by the FI making the Microsubloan on the basis of an appraisal carried out in accordance with the provisions of the Operational Manual.

5. Microsubloans shall each be made on terms whereby the FI making the Microsubloan shall obtain, by written contract or other appropriate means, rights adequate to protect its interest and those of the Borrower and the Association, including, as appropriate, the right to:

(a) require the Beneficiary to carry out the Microcredit Subproject with due diligence and efficiency and in conformity with appropriate technical, environmental, economical, financial and commercial practices, to maintain adequate

records, and to provide, promptly as needed, the funds, facilities and other resources required for this purpose;

(b) require that: (i) the works, goods and services to be financed out of the proceeds of the Credit shall be procured at a reasonable price in accordance with the commercial practices normally used by commercial enterprises in the territory of the Borrower, account being taken of other relevant factors such as time of delivery and efficiency and reliability of the goods and availability of maintenance facilities and spare parts therefor, the technical quality and reliability of the works and, in the case of services, of their quality and the competence of the parties rendering them; and (ii) such goods and services shall be used exclusively in the carrying out of the Microcredit Subproject;

(c) inspect, by itself or jointly with representatives of the Association or ECDF if the Association or ECDF shall so request, the goods and the sites, works, plans and construction included in the Microcredit Subproject, the operation thereof, and any relevant records and documents;

(d) require the Beneficiary to: (i) maintain accounts and records relating to expenditures under the Microcredit Subproject;

(e) obtain all such information as the Association or ECDF shall reasonably request relating to the implementation of the Microcredit Subproject and to the benefits to be derived from the Microcredit Subproject; and

(f) suspend or terminate the right of the Beneficiary to the use of the proceeds of the Credit upon failure by such Beneficiary to perform its obligations under its contract with the FI.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (4) 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 \$1,500,000 to be withdrawn from the Credit 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 \$750,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of \$5,000,000.

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 Borrower shall furnish to the Association a request or requests for a deposit or deposits 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 Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower 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 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 Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures.

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 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 the 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 Account;

(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, less the 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 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 Borrower 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 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 the 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 Account.

(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.

