

CONFORMED COPY

CREDIT NUMBER 3438-ET

Development Credit Agreement

(Emergency Recovery Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 21, 2000

CREDIT NUMBER 3438-ET

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 21, 2000, between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Borrower a letter dated November 1, 2000, describing a program of actions to address the Emergency (as hereinafter defined) (the Program) and declaring the Borrower's commitment to the execution of the Program;

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

(C) Part C of the Project will be carried out by the Ethiopian Roads Authority (ERA) with the Borrower's assistance and as part of such assistance, the Borrower will make available to ERA part of the proceeds of the Credit as provided in this Agreement; 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 and the Project Agreement of even date herewith between the Association and ERA;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999) with the modifications set forth below (the General Conditions), constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below, and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraphs (13) through (15):

"12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 11 of Resolution No. 194 of the Board of Governors of the Association, adopted on April 8, 1999; and 'Participating Countries' means, collectively, all such countries." ;

(b) The second sentence of Section 5.01 is modified to read as below:

"Section 5.01. Except as the Borrower and the Association shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a Participating Country or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the knowledge of the Association, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations."

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

(a) "Birr" means the Borrower's currency;

(b) "Eligible Beneficiaries" means the internally displaced persons living within the fourteen Woredas (as hereinafter defined) affected by the Emergency (as hereinafter defined) in the Tigray and Afar Regions, deportees/returnees and families of deceased breadwinners, who require assistance to reconstruct their homes or to resume farming or other income generation activities;

(c) "Emergency" means the extraordinary event of limited duration which for the purposes of this Agreement started in May 1998, and which was caused by the escalation of the conflict between the Borrower and the State of Eritrea and by the drought;

(d) "ERA" means the Ethiopian Roads Authority, established and operating under the Borrower's Proclamation No. 80/1997, dated June 5, 1997;

(e) "ERP Fund Account" means the account in Birr, to be established pursuant to Section 6.01 (c) of this Agreement in the National Bank of Ethiopia for the purpose of holding the Birr equivalent of the proceeds of the Credit disbursed from Category (1) of the table in paragraph 1 of Schedule 1 to this Agreement;

(f) "ERPMU" means the Borrower's Program Management Unit, established within MEDaC (as hereinafter defined) for the purposes of overseeing the implementation of the Program;

(g) "ESRDF" means the Ethiopia Social Rehabilitation and Development Fund, established and operating pursuant to the Borrower's Proclamation No. 19 dated February 13, 1996;

(h) "MEDaC" means the Borrower's Ministry of Economic Development and Cooperation;

(i) "Mines" means landmines and includes explosive items such as bombs, booby traps, munitions and explosive ordnance of any kind;

(j) "PIP" or "Project Implementation Plan" means the Project Implementation Plan, adopted by the Borrower, and giving details of procurement and disbursement arrangements, performance indicators and other administrative, financial and organizational arrangements, as shall have been agreed with the Association for purposes of the implementation of the Project, as same may be amended from time to time, and such term includes any schedules to the PIP;

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

(l) "Project Management Report" means each report prepared in accordance with Section 4.02 of this Agreement;

(m) "Region" means administrative areas within the Borrower's territory as defined in the Borrower's Constitution;

(n) "Special Accounts" means the accounts referred to in Section 2.02 (b) of this Agreement;

(o) "Subsidiary Financing Agreement" means the agreement to be entered into between the Borrower and ERA pursuant to Section 3.01 (d) of this Agreement, as the same may be amended from time to time, and such term includes all schedules to the Subsidiary Financing Agreement; and

(p) "Zones, Woredas, and Kebeles or Tabias" mean different local government levels within the Borrower's territory established and operating pursuant to the relevant Regional Constitutions.

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 one hundred and eighty million two hundred thousand Special Drawing Rights (SDR 180,200,000).

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 and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars two special deposit accounts (the MEDaC Special Account for Parts B and D of the Project and the ERA Special Account for Part C of the Project) in the National Bank of Ethiopia on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be December 31, 2003, or such later date as the Borrower and the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge

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

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

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

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing April 1, 2011, and ending October 1, 2040. Each installment to and including the installment payable on October 1, 2020, shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by: (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

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

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

ARTICLE III

Execution of the Program and the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Program and the Project as set forth in the Preamble and Schedule 2 to this Agreement, and, to this end shall carry out Parts A, B, and D of the Project through MEDaC, with due diligence and efficiency and in conformity with appropriate financial, technical, engineering, mine-safety, administrative and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project;

(b) Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause ERA, with respect to Part C of the Project, to perform in accordance with the provisions of the Project Agreement all the obligations of ERA therein set forth, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable ERA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance;

(c) Without any 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 Parts A, B, and D of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(d) The Borrower shall make the proceeds of the Credit from time to time allocated to Categories (2), (3) (b), and (4) (b) in the table in Schedule 1 to this Agreement available to ERA as a grant under a subsidiary financing agreement to be entered into between the Borrower and ERA, under terms and conditions which have been approved by the Association.

(e) The Borrower shall exercise its rights under the Subsidiary Financing 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 Financing 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 Parts A, B and D of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. The Borrower shall:

(a) establish and maintain until completion of the Project the ERP Fund Account in the National Bank of Ethiopia; and

(b) shall ensure that all amounts deposited in the ERP Fund Account, shall be used exclusively to make payments for eligible activities under Part A of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to Parts A, B, and D of the Project.

(b) The Borrower shall:

(i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts as well as the ERP Fund Account, for each fiscal year audited, in accordance with auditing standards acceptable to the

Association, consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited, and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

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

(i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;

(ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the Project Management Reports or statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the provisions of Section 4.01 of this Agreement, the Borrower shall carry out a time-bound action plan acceptable to the Association for the strengthening of the financial management system for Parts B and D of the Project referred to in paragraph (a) of said Section 4.01 in order to enable the Borrower, not later than eighteen months after the Effective Date, or such later date as the Association shall agree, to prepare quarterly Project Management Reports, acceptable to the Association, each of which:

(i) (A) sets forth actual sources and applications of funds for the Project, both cumulatively and for the period covered by said report, and projected sources and applications of funds for the Project for the six-month period following the period covered by said report, and (B) shows separately expenditures financed out of the proceeds of the Credit during the period covered by said report and expenditures proposed to be financed out of the proceeds of the Credit during the six-month period following the period covered by said report;

(ii) (A) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and (B) explains variances between the actual and previously forecast implementation targets; and

(iii) sets forth the status of procurement under the Project and expenditures under contracts financed out of the proceeds of the Credit, as at the end of the period covered by said report.

(b) Upon the completion of the action plan referred to in paragraph (a) of this Section, the Borrower shall prepare, in accordance with guidelines acceptable to

the Association, and furnish to the Association not later than 45 days after the end of each calendar quarter a Project Management Report for such period.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional events are specified:

- (a) an extraordinary situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out;
- (b) as a result of the Borrower laying down new Mines anywhere in its territory, the objectives of the Project have in the opinion of the Association, been undermined or jeopardized;
- (c) the ERP Fund Account has been used for purposes other than those stated in Section 3.03 (b) of this Agreement;
- (d) ERA shall have failed to perform any of its obligations under the Project Agreement;
- (e) as a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that ERA will be able to perform its obligations under the Project Agreement; or
- (f) Proclamation No. 80/1997, dated June 5, 1997, establishing ERA shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ERA to perform any of its obligations.

Section 5.02. Pursuant to Section 7.01 (h) of the General Conditions, the following additional events are specified:

- (a) any events specified in paragraphs (b), (c), and (d) of Section 5.01 of this Agreement shall occur and shall continue for a period of 30 days after notice thereof shall have been given by the Association to the Borrower; and
- (b) the events specified in paragraphs (e) and (f) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE 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 financial management and accounting system for Parts B and D of the Project, acceptable to the Association;
- (b) the Borrower has adopted the PIP in form and substance satisfactory to the Association;
- (c) the Borrower has established the ERP Fund Account; and
- (d) the Borrower has established the ERPMU and the Tigray PMU, with the key staff as specified in paragraph 2 of Schedule 4 to this Agreement.

Section 6.02. 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 Project Agreement has been duly authorized or ratified by ERA, and is legally binding upon ERA in accordance with its terms.

Section 6.03. 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 VII

Representative of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Ministry of Finance
P. O. Box 1905
Addis Ababa
Ethiopia

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

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Berhane Gebre-Christos

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

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) Eligible Imports required for Part A of the Project as specified in the Annex to this Schedule		100% of foreign expenditures
(a)	31,400,000	
(b)	35,300,000	
(c)	19,600,000	
(2) Civil works for Part C of the Project	31,400,000	90%
(3) Goods, vehicles and equipment		100% of foreign expenditures, 100% of local expenditures (ex-factory costs) and 90% of local expenditures for other items procured locally
(a) for Part B of the Project	1,900,000	
(b) for Part C of the Project	29,600,000	
(c) for Part D of the Project	1,900,000	
(4) Consultants' services, de-mining services, training, and audits		100%
(a) for Part B of the Project	21,700,000	
(b) for Part C of the Project	3,000,000	
(c) for Part D of the Project	1,300,000	
(5) Unallocated	3,100,000	
TOTAL	180,200,000	

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.

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

(a) payments made for expenditures under: (i) Category (1) (a) prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 31,400,000, may be made on account of payments made for expenditures before that date but after June 18, 2000; and (ii) Categories (2) and (3) (b) prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of SDR 31,000,000 may be made on account of payments made for expenditures before that date, but after June 18, 2000;

(b) expenditures under Category (1) for goods supplied under a contract which any international financing institution or agency other than the Association shall have financed or agreed to finance under another credit;

(c) except as the Association shall otherwise agree, expenditures under Category (1) in excess of an aggregate amount equivalent to 50% of the amount allocated to such Category for any class of eligible imports specified in the Annex to this Schedule;

(d) expenditures under Category (1) for goods intended for military or paramilitary purposes, luxury consumption and used goods;

(e) expenditures under Categories (1) (b) and (1) (c) until the Borrower has furnished to the Association the information referred to in paragraph 7 of Schedule 4 to this Agreement, in form and substance satisfactory to the Association; and

(f) expenditures under Categories (2), (3) (b) and (4) (b) unless the Borrower and ERA have executed the Subsidiary Financing Agreement referred to in Section 3.01 (d) of this Agreement and the Association has received a legal opinion that it is binding on the Borrower and ERA in accordance with its terms.

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 costing less than \$200,000, services for consultant firms under contracts costing less than \$100,000 equivalent, and services for individual consultants under contracts costing less than \$50,000 equivalent, all under such terms and conditions as the Association shall specify by notice to the Borrower.

ANNEX TO SCHEDULE 1

Classes of Eligible Imports to be Financed Under the Project

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

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) assist the people affected by the Emergency rebuild their lives and resume economic activities; (ii) reconstruct and rehabilitate physical and social infrastructure; and (iii) support macroeconomic stability.

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: Household Rehabilitation.

The importation of goods specified in the Annex to Schedule 1 to this Agreement to support income generation assistance, community infrastructure and housing rehabilitation and reconstruction for about 182,000 Eligible Beneficiaries.

Part B: De-mining Activities

Carrying out of de-mining activities, including, acquisition of equipment and materials, training of personnel in mine clearing, clearing of landmines and their disposal, undertaking a surveying and a quality assurance program, and provision of technical advisory services.

Part C: Road Rehabilitation

1. Rehabilitation and improvement of the following primary and secondary roads: (a) about 668 kilometers of roads affected by the Emergency; (b) about 91 kilometers of roads which have deteriorated as a result of the increased traffic in the northern Regions of the Borrower's territory; (c) about 200 kilometers of roads leading to persistent drought affected areas; and (d) about 340 kilometers of other road sections affected by the Emergency.

2. Improvement of about 500 kilometers of regional rural roads in Regions impacted by increased movement as a result of the Emergency.

3. Reconstruction/installation of selected bridges, including the Abay bridge, the bridge on the Dire Dawa/Dewelle and various roads.

4. Acquisition of road maintenance equipment and spare parts to strengthen regravelling, resealing and routine maintenance units in the following Districts, Adigrat, Gondar, Debremarkos, Combolcha and Dire Dawa.

5. Acquisition of about 1,970 meters of steel bridges (Bailey bridges) to replace bridges damaged by the Emergency.

6. Carrying out pre-construction investigations and construction supervision, including road condition surveys to confirm the scope of the improvements required, through the provision of technical advisory services.

Part D: Institutional Strengthening

Strengthening the capacity of the Borrower's institutions at the federal, regional and local levels to carry out and support activities for Part A and B of the Project through the provision of training and technical advisory services, and the acquisition of vehicles and equipment, and the carrying out of audits.

* * *

The Project is expected to be completed by June 30, 2003.

SCHEDULE 3

Procurement and Consultants' Services

Section I: Procurement of Good and Works

Part A: General

1. Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and (b) the provisions of the following Parts of this Section I.

2. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods 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. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b) Preference for domestically manufactured goods

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

Part C: Other Procurement Procedures

1. National Competitive Bidding

Works and goods estimated to cost less than \$500,000 and \$200,000 equivalent respectively per contract, up to an aggregate amount not to exceed \$20,000,000 and \$5,000,000 equivalent respectively, 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 \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$500,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Force Account

Works which meet the requirements of paragraph 3.8 of the Guidelines, and costing \$4,000,000 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.

4. Procurement from UN Agencies

Vehicles and office equipment may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

5. Commonly Traded Commodities

Commonly traded commodities under Category (1) in the table in Schedule 1 to this Agreement may be procured through organized international commodity markets or other channels of competitive procurement acceptable to the Association, in accordance

with the provisions of paragraph 2.65 of the Guidelines.

6. Public Sector Imports

Goods imported by the public sector under Category (1) in the table in Schedule 1 to this Agreement estimated to cost less than \$750,000 equivalent per contract, may be procured under contracts awarded on the basis of international shopping procedures in accordance with paragraphs 3.5 and 3.6 of the Guidelines.

7. Private Sector Imports

Goods imported by the private sector under Category (1) in the table in Schedule 1 to this Agreement estimated to cost less than \$3,000,000 equivalent per contract may be procured in accordance with established commercial practices satisfactory to the Borrower and the Association.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

(a) With respect to 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.

(b) With respect to each contract for imports under Category (1) in the table in paragraph 1 of Schedule 1 to this Agreement: (i) procured by the public sector and estimated to cost \$750,000 or more; and (ii) procured by the private sector and estimated to cost \$3,000,000 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

Part A: General

1. Consultants' services shall be procured in accordance with, (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Association in January 1997 and revised in September 1997 and January 1999, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines), and (b) the provisions of the following Parts of this Section II.

2. In paragraph 1.10 of the Consultant Guidelines, the references to "Bank member countries" and "member country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-Based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

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

2. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

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

(b) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

Project Coordination

1. The Program and Project shall be managed, coordinated and carried out by the ERPMU, established and maintained within MEDaC, which shall report to the Minister responsible for MEDaC.

2. The Borrower shall establish and maintain until completion of the Program, PMUs in the Tigray and Afar Regions, with terms of reference and key staff (PMU manager, procurement specialist, financial manager and sector specialists) satisfactory to the Association. The PMU shall be responsible for overall management and monitoring of the Program in the Region concerned and shall report to the President of the Regional

Council concerned.

Part A of the Project

3. In the Tigray Region each of the seven participating Woredas shall maintain until completion of the Project Rehabilitation Task Forces, comprising the Woreda Chairman, relevant Borrower officials and women and youth associations. Each Participating Woreda, shall establish an ERP Unit, with a Woreda Program coordinator, at least two field teams to provide training and support to the Tabia councils and an accountant to supervise disbursements and keep financial records.

4. The Afar Regional Administration shall establish a coordination committee to guide and monitor the Program in the seven participating Woredas. The Regional ESRDF office shall serve as the PMU for the implementation of Part A of the Project.

5. The Borrower shall establish PMUs in other Regions as required to implement Part A of the Project. Such PMUs shall report to the Borrower's Disaster Prevention and Preparedness Commission.

6. The Borrower shall carry out Parts A, B, and D of the Project in accordance with the PIP, and shall not amend or waive any provision thereof which in the opinion of the association shall materially or adversely impact the implementation of the project. The process of identification and reconfirmation of the Eligible Beneficiaries, verification of the benefit packages, flow of funds to the Eligible Beneficiaries and verification of the use of the funds for the purposes intended shall be in accordance with the provisions of the PIP.

7. (a) The Borrower shall within six months of the Effectiveness Date and semiannually thereafter, furnish to the Association: (i) a list of Eligible Beneficiaries, identifying the amount of the funds for each and the agreed goods and services to be acquired by said Eligible Beneficiary; (ii) verification that a sample of the Eligible Beneficiaries as agreed between the Borrower and the Association, have received their payments in accordance with the certified list; and (iii) verification that a sample as agreed between the Borrower and the Association of the Eligible Beneficiaries have acquired the goods and services intended.

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

Part B of Project

8. The MEDaC shall supervise the implementation of the de-mining under Part B of the Project and shall be responsible for ensuring that the activities are carried out in accordance with international standards for such activities, based on independent monitoring and verification by a quality assurance unit within the ERPMU secretariat, which includes at least one international expert.

9. The Borrower shall arrange for annual reviews by specialists, with experience and qualifications acceptable to the Association, to advise and guide the ERPMU in the implementation of de-mining activities under Part B of the Project.

10. (a) For purposes of carrying out Part B of the Project, the Borrower shall:

(i) maintain with qualified staff and adequate resources the ERPMU, which shall be responsible for (A) setting the standards for Mine clearing works; (B) reviewing the standard operating procedures and safety regulations of Mine clearing agencies; and (C) conducting quality assurance tests to ensure compliance of Mine clearing agencies with accepted international standards for humanitarian mine clearance and United Nations Guidelines; and

(ii) ensure that all Mine clearing activities are carried out and all Mines cleared under the Project are promptly destroyed in

accordance with appropriate safety standards and guidelines.

Monitoring and Evaluation

11. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators specified in Schedule 6 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about February 1 in each year, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 31 in each year, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories, (3) (a), (3) (c), (4) (a) and (4) (c) set forth in the table in paragraph 1 of Schedule 1 to this Agreement in respect of Parts B and D of the Project and Categories (2), (3) (b) and (4) (b) set forth in said table in respect of Part C of the Project;

(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 \$1,000,000 in respect of the Special Account for Parts B and D of the Project and an amount equivalent to \$2,000,000 in respect of the Special Account for Part C thereof, 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 \$500,000 in respect of the Special Account for Parts B and D of the Project and an amount equivalent to \$1,000,000 in respect of the Special Account for Part C thereof, until: (i) in respect of the Special Account for Parts B and D of the Project, 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 for Parts B and D of Project shall be equal to or exceed the equivalent of SDR 2,500,000, and (ii) in respect of the Special Account for Part C of the Project, 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 for Part C of the Project shall be equal to or exceed the equivalent of SDR 5,000,000.

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

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

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account 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 all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account 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.

SCHEDULE 6

Performance Indicators

Rehabilitation

1. At least 60% of the finances needed by the estimated 360,000 Eligible Beneficiaries within the war affected area to return to their homes and to restart farming and other income generating activities transferred to individual households.
2. At least 60% of the finances needed by the estimated 110,000 deportees/returnees and 36,000 families of deceased civilians to restart/initiate income generating activities transferred to individual households.

De-mining

De-mining carried out in the war affected area to allow at least 85% of the Eligible Beneficiaries to return to their homes, farms and pastures.

Reconstruction

1. Rehabilitation/improvement of at least 500 km of primary and secondary roads.
2. Improvement of at least 500 km of regional rural roads in the war-affected areas.
3. Procurement of at least 1,500 meters of Bailey bridges to replace bridges damaged during the conflict and to replenish ERA's emergency stocks.