

CONFORMED COPY

CREDIT NUMBER 3989 ET

Project Agreement

(Second Road Sector Development Support Project)

between

INTERNATIONAL DEVELOPMENT ASSOCIATION

and

ETHIOPIAN ROADS AUTHORITY

Dated March 10, 2005

CREDIT NUMBER 3989 ET

PROJECT AGREEMENT

AGREEMENT, dated March 10, 2005, between INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) and ETHIOPIAN ROADS AUTHORITY (ERA).

WHEREAS (A) by the Development Credit Agreement of even date herewith between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the Borrower) and the Association, the Association has agreed to make available to the Borrower an amount in various currencies equivalent to one hundred ten million Special Drawing Rights (SDR110,000,000), on the terms and conditions set forth in the Development Credit Agreement, but only on conditions that ERA agree to undertake such obligations towards the Association as are set forth in this Agreement;

(B) by a Subsidiary Agreement to be entered into between the Borrower and ERA, the proceeds of the Credit provided for under the Development Credit Agreement will be made available to ERA on the terms and conditions set forth in said Subsidiary Agreement; and

WHEREAS ERA, in consideration of the Association's entering into the Development Credit Agreement with the Borrower, has agreed to undertake the obligations set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

Definitions

Section 1.01. Unless the context otherwise requires, the several terms defined in the Development Credit Agreement, the Preamble to this Agreement and in the General Conditions (as so defined) have the respective meanings therein set forth.

ARTICLE II

Execution of the Project

Section 2.01. (a) ERA declares its commitment to the objectives of the Project as set forth in Schedule 2 to the Development Credit Agreement, and, to this end, shall carry out the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and environmental practices, and shall provide, or cause to be provided, 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 Association and the Borrower shall otherwise agree, ERA shall carry out the Project in accordance with the Implementation Program set forth in Schedule 2 to this Agreement.

Section 2.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to this Agreement.

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

Section 2.03. (a) ERA shall carry out the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of the Project Agreement.

(b) For the purposes of Section 9.06 of the General Conditions and without limitation thereto, ERA shall:

- (i) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months before the Closing Date or such later date as may be agreed for this purpose between the Association and ERA, a plan designed to ensure the continued objectives of the Program; and
- (ii) afford the Association a reasonable opportunity to exchange views with ERA on said plan.

Section 2.04. ERA shall duly perform all its obligations under the Subsidiary Agreement. Except as the Association shall otherwise agree, ERA shall not take or concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Agreement or any provision thereof.

Section 2.05. (a) ERA shall, at the request of the Association, exchange views with the Association with regard to the progress of the Project, the performance of its obligations under this Agreement and under the Subsidiary Agreement, and other matters relating to the purposes of the Credit; and

(b) ERA shall promptly inform the Borrower and the Association of any condition which interferes or threatens to interfere with the progress of the Project, the accomplishment of the purposes of the Credit, or the performance by ERA of its obligations under this Agreement and under the Subsidiary Agreement.

Section 2.06. Without limitation to its obligations under Section 3.01 of this Agreement, ERA, for the purposes of making available its counterpart contribution to the financing of the Project, shall:

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

(b) promptly thereafter, make an initial deposit into the Project Account, in an amount equivalent to *Birr* 32,000,000 to finance ERA's contribution to the Project for the FY in which the Credit is declared Effective;

(c) thereafter deposit monthly into the Project Account by July 8 in each Fiscal Year during Project implementation such amount as shall have been previously agreed between the Borrower, ERA and the Association for the ensuing Fiscal Year; and

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

Section 2.07. ERA shall, until completion of the Project, and in accordance with a maintenance action plan in form and substance satisfactory to the Association furnished to the Association not later than July 7 in each Fiscal Year, maintain all the roads rehabilitated, upgraded or constructed under the Project, and provide the necessary resources and manpower therefor.

Section 2.08. ERA shall carry out the EMP, RPF and RAPs in accordance with the respective plans of action and timetables contained therein.

ARTICLE III

Management and Operations of ERA

Section 3.01. ERA shall carry on its operations and conduct its affairs in accordance with sound administrative, financial and engineering practices and with due regard for social and environmental practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers.

Section 3.02. ERA shall at all times operate and maintain its plant, machinery, equipment and other property, and from time to time, promptly as needed, make all necessary repairs and renewals thereof, all in accordance with sound engineering, financial and business practices.

Section 3.03. ERA shall take out and maintain with responsible insurers, adequate insurance against such risks and in such amounts as shall be consistent with appropriate practice.

ARTICLE IV

Financial Covenants

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

- (b) ERA shall:
 - (i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association) audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
 - (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association), (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so

audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, 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 reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

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

Section 4.02. (a) Without limitation upon ERA's progress reporting obligations set out in paragraphs (1) and (2) of Schedule (2) to this Agreement, ERA shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

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

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

ARTICLE V

Effective Date; Termination; Cancellation and Suspension

Section 5.01. This Agreement shall come into force and effect on the date upon which the Development Credit Agreement becomes effective.

Section 5.02. (a) This Agreement and all obligations of the Association and of ERA thereunder shall terminate on the earlier of the following two dates:

- (i) the date on which the Development Credit Agreement shall terminate in accordance with its terms; or
- (ii) the date 20 years after the date of this Agreement.

(b) If the Development Credit Agreement terminates in accordance with its terms before the date specified in paragraph (a) (ii) of this Section, the Association shall promptly notify ERA of this event.

Section 5.03. All the provisions of this Agreement shall continue in full force and effect notwithstanding any cancellation or suspension under the General Conditions.

ARTICLE VI

Miscellaneous Provisions

Section 6.01. Any notice or request required or permitted to be given or made under this Agreement and any agreement between the parties contemplated by this Agreement shall be in writing. Such notice or request shall be deemed to have been duly given or made when it shall be delivered by hand or by mail, telex or facsimile to the party to which it is required or permitted to be given or made at such party's address hereinafter specified or at such other address as such party shall have designated by notice to the party giving such notice or making such request. Deliveries made by facsimile transmission shall also be confirmed by mail. The addresses so specified are:

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

For ETHIOPIAN ROADS AUTHORITY:

Ethiopia Road Authority
P.O. Box 1770 Addis Ababa
Ethiopia

Cable address:	Telex:	Facsimile:
Highways Addis Ababa	21180	251-1-5148666

Section 6.02. Any action required or permitted to be taken, and any document required or permitted to be executed, under this Agreement on behalf of ERA, or by ERA on behalf of the Borrower under the Development Credit Agreement, may be taken or executed by ERA's General Manager or such other person or persons as ERA shall designate in writing, and ERA shall furnish to the Association sufficient evidence of the authority and the authenticated specimen signature of each such person.

Section 6.03. This Agreement may be executed in several counterparts, each of which shall be an original, and all collectively but one instrument.

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.

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative
Africa Region

ETHIOPIAN ROADS AUTHORITY

By

Authorized Representative

SCHEDULE 1

Procurement and Consultants' Services

Section I. General

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

B. All consultants' services shall be procured in accordance with Section I, paragraphs 3.15 through 3.20, and Section IV of, and Appendix 2 to, the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

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

A. International Competitive Bidding

Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of international competitive bidding in accordance with the provisions of Section II and paragraphs 3.14 and 3.15 of the Procurement Guidelines, and the following additional procedure:

Domestic Preference The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines and Appendix 2 thereto, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding: (a) works for the carrying out of Part A(2) of the Project estimated to cost less than \$5,000,000 equivalent per contract and goods estimated to cost less than \$100,000 equivalent per contract, may be procured under contracts awarded on the basis of national competitive bidding in accordance with the provisions of paragraphs 3.1, 3.3, 3.4, 3.14 and 3.15 of the Procurement Guidelines.

(b) contracts for works concerning the implementation of Part A.2 of the Project shall be awarded on the basis of procedures requiring invitations to prequalify or to bid therefor, in accordance with procedures set forth in the Project Implementation Plan

2. Shopping Goods estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of shopping procedures in accordance with the provisions of paragraphs 3.1 and 3.5 of the Guidelines.

3. Direct Contracting Goods which meet the requirements for direct contracting referred to in paragraphs 3.1, 3.6 and 3.7 of the Procurement Guidelines may, with the Association's prior agreement, be procured in accordance with the provisions of said paragraphs.

4. Procurement from UN Agencies Goods may be procured directly from the Inter-Agency Procurement Service Office (IAPSO) of the United Nations in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection

Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of quality and cost in accordance with the provisions of Section II of the Consultant Guidelines. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Single Source Selection Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for single source selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

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

Section IV. Review by the Association of Procurement Decisions

A. Prior Review

Except as the Association shall otherwise determine by notice to the Borrower, the following prior review procedures shall apply:

1. Goods, Works and Services (other than Consultants' Services)

(a) The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Procurement Guidelines shall apply to each contract: (i) for goods, and services (other than consultants' services) estimated to cost \$250,000 or more and (ii) to each contract for works estimated to cost \$500,000 or more and procured on the basis of international competitive bidding, or national competitive bidding.

(b) The following prior review procedures shall apply to each contract to be procured on the basis of direct contracting: (i) prior to the execution of the contract, the Borrower shall provide to the Association a copy of the specifications and the draft contract for its approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the procedures set forth in paragraphs 2(h) and 3 of Appendix 1 to the Guidelines shall apply.

2. Consultants' Services Provided by Firms.

The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 and each contract procured using single source procedures.

3. Consultants' Services Provided by Individual Consultants.

(a) The following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

(b) The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (i) the qualifications, experience, terms of reference and conditions of employment of the

consultants shall be furnished to the Association for its prior review and approval; (ii) the contract shall be awarded only after the Association's approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

B. Post Review.

1. With respect to each contract for goods, works or services (other than consultants' services) not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Procurement Guidelines shall apply.

2. With respect to each contract for consultants' services not governed by Part A of this Section, the post review procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 2

Implementation Program

Annual Reviews

1. ERA shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Schedule 3 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 and the Borrower, on or about October 31 in each Fiscal 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, including the environmental and social development outcomes in relation thereto, 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 and the Borrower, by January 31 in each Fiscal 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.

Mid-Term Review

2. ERA shall:

(a) carry out, jointly with the Association and the Borrower, not later than March 31, 2007, a comprehensive mid-term review aimed at: (i) documenting progress toward Project objectives, including the environmental and social development outcomes in respect thereof; (ii) identifying and resolving obstacles to Project implementation; and (iii) adjusting, in agreement with the Association, targets and corresponding programs to reflect progress achieved in the implementation of the Project as of the date of the review.

(b) ERA shall, not later than four weeks prior to the review referred to in Paragraph 2 (a) of this Section, furnish to the Association a mid-term report, in such detail as

the Association shall reasonably request, including an evaluation of the progress achieved in Project implementation.

(c) Promptly after completing the mid-term review, ERA shall, including with the assistance of the Borrower, take all measures required to fulfill the recommendations arising out of said review, with due diligence and efficiency and in accordance with appropriate practices, taking into account the Association's comments thereon.

Institutional covenants

3. ERA shall:

(a) maintain, until the completion of the Project, an advisory unit to assist the General Manager for the coordination of the implementation of the Program. Said unit shall be headed by a coordinator whose qualifications and experience shall be at all times satisfactory to the Association, and shall consist of suitably qualified staff in adequate numbers;

(b) maintain, with terms of reference acceptable to the Association, until the completion of the Project, its Environmental Monitoring and safety Branch responsible for (i) the assessment and mitigation of environmental and social impact of the Project and the Program, including the implementation of the Environmental Mitigation Plan and the RAPs, and (ii) the monitoring of the environmental and social performance of activities carried out under the Project. The Environmental Monitoring and Safety Branch shall consist of suitably qualified staff in adequate numbers, among whom are HIV/AIDS issues specialists; and

(c) (i) carry out the Project in accordance with the Project Implementation Plan; and (ii) not permit the said plan, or any provision thereof, to be waived or amended in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of the Project.

Execution covenants

4. ERA shall implement its five-year road maintenance program of roads rehabilitated, upgraded or constructed under the Project with due diligence and efficiency and with appropriate engineering, and administrative practices, and with due respect for environmental practices, in accordance with the timetable set forth therein.

5. ERA shall implement the Environmental Mitigation Plan, the RPF and the RAPs for the Project in accordance with appropriate environmental practices set forth in said plans.

SCHEDULE 3

Performance Indicators

For the purpose of this Agreement and the Development Credit Agreement, Project performance will be measured by the following indicators, unless otherwise agreed by the Association:

Part A : Upgrading of Federal Trunk and Link Roads

- 593 km of federal, trunk and link roads upgraded;

Part B : Construction of Federal Link and Regional Rural Roads

- 119 km of federal link and 173 km of regional rural roads constructed

Part C : Supporting the Implementation of the Rural Travel and Transport Program of the Borrower

- 40 *Woreda* Travel and Transport plans prepared

Part D : Institutional Strengthening of ERA

- ERA's Financial Management System updated
- ERA's Pavement Management System updated
- 75 ERA employees trained

Part E : Supporting the Accomplishment of Program's Objectives

- Preparatory studies carried out for 267 km of roads