

CONFORMED COPY

CREDIT NUMBER 3646 ET

Development Credit Agreement

(Food Security Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 24, 2002

CREDIT NUMBER 3646 ET

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 24, 2002, between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) 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;

(B) the Association has received a letter dated April 25, 2002, from the Borrower, describing a program of actions, objectives and policies (the Program) designed to strengthen the Borrower's efforts and actions aimed at increasing access by its population, at all times, to sufficient food in terms of quantity, quality and diversity, and thereby reducing the incidence of poverty, specifically with respect to the most vulnerable social groups, and declaring therein the Borrower's commitment to the execution of the Program; 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 (as amended through

October 6, 1999) (the General Conditions), constitute an integral part of this Agreement.

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

(a) "Beneficiary Community" means any group of 5 or more people in the territory of the Borrower sharing a common aim; any cooperative organization, CBO (as hereinafter defined), gender-based or child-advancement group, youth organization, and Committee on Food Security (as hereinafter defined), to whom an IGA Grant (as hereinafter defined) under Part A of the Project is made or proposed to be made;

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

(c) "CB Grant" and "Capacity Building Grant" mean a grant made or proposed to be made under Part B of the Project to a *Woreda* (as hereinafter defined), or a Region (as hereinafter defined);

(d) "CB Grant Agreement" means the Agreement to be entered into between a Recipient (as hereinafter defined) being either a *Woreda* and a Regional Government, or a

Regional Food Security Coordination Office and a Region, for the purpose of financing a Subproject for the carrying out of capacity building activities;

(e) “CB Subproject” means a specific activity in training and capacity building to benefit a *Woreda* or a Region of the Borrower utilizing the proceeds of a CB Grant made under Part B of the Project;

(f) “Community Based Organization” and “CBO” mean a group of individuals of a particular community in the Borrower's territory, registered in accordance with the Borrower's laws, and which is the beneficiary of an IGA Grant (as hereinafter defined) or the Recipient of a CB Grant under the Project;

(g) “Donor” means any country, government or multilateral agency, public or private financial institution, development finance institution or international organization, which is proposing to make, or has made, financing available to the Borrower on a grant basis or under concessional terms to support a development program of the Borrower;

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

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

(j) “Food Security Department” and “FSD” mean the structure under the authority of MRD responsible for the coordination of Project activities at federal level, and referred to in Section 6.01 (e) of this Agreement;

(k) “Food Security Steering Committee” and “FSSC” mean the steering committee established at federal level for the overall leadership and guidance on food security interventions in the territory of the Borrower;

(l) “IGA Grant” means a grant made or proposed to be made by a *Woreda* to a Beneficiary Community for the carrying out of an IGA Subproject for an Income Generating Activity (as hereinafter defined);

(m) “IGA Grant Agreement” means the agreement to be entered into between a Beneficiary Community and a *Woreda* for the purpose of financing the carrying out of an IGA Subproject;

(n) “IGA Subproject” means a specific project in income generation to be carried out by a Beneficiary Community utilizing the proceeds of a Grant made under Part A of the Project;

(o) “Income Generating Activity” and “IGA” mean, for purposes of the Project, any activity designed to increase household and community assets and incomes as further set forth in the Project Implementation Manual;

(p) “IEC” means Information, Education, and Communication;

(q) “KFSC” means Kebele Food Security Committee, a committee of the Borrower

established at Kebele (as hereinafter defined) level to appraise and approve eligible IGA Grants;

- (r) “MoFED” means the Borrower's Ministry of Finance and Economic Development;
- (s) “MRD” means the Borrower’s Ministry of Rural Development;
- (t) “MOU” means a memorandum of understanding to be entered into for purpose of Project implementation between MRD and a Region;
- (u) “NBE” means the National Bank of Ethiopia, the Borrower’s central bank;
- (v) “NGO” means a Non-Governmental Organization established and operating under the laws of the Borrower;
- (w) “Project Implementation Manual” means the manual referred to in Section 6.01 (c) of this Agreement consisting of different modules setting out respectively, *inter alia*, the administrative, financial and accounting procedures; the procurement and disbursement procedures; eligibility criteria for: (i) Beneficiary Communities and Recipients; (ii) Subprojects for Income Generating Activities under Part A of the Project, including the environmental assessments thereof; and (iii) Subprojects for capacity building; terms and conditions for related Grant Agreements, including procurement and accounting procedures thereof; performance indicators to be used for the Project, and other activities and arrangements to be used for the purpose of implementing the Project, to be adopted by the Borrower not later than the Effective Date, as the same may be amended from time to time, and such term includes any schedules to the Project Implementation Manual;
- (x) “Project Account” means the Account referred to in Section 3.04 of this Agreement;
- (y) “Project Year” and “PY” mean each twelve month period during Project Implementation starting from the day after the Effective Date;
- (z) “Recipient” means a *Woreda* or Region of the Borrower to which a Capacity Building Grant under Part B of the Project is made, or proposed to be made;
- (aa) “Region” means an administrative area within the Borrower’s territory as defined in the Borrower’s Constitution;
- (bb) “Regional Food Security Coordination Office” and “RFSCO” mean the regional project coordination unit responsible for the coordination of Project activities at regional level, and referred to in Section 6.01 (e) of this Agreement;
- (cc) “Regional and Local Government” means the government of a Borrower’s administrative area defined in the Borrower’s Constitution;
- (dd) “Special Account” means the account referred to in Section 2.02 (b) of this Agreement;
- (ee) “Subsidiary Financing Agreement” means the agreement to be entered into

between a Region and a *Woreda*; for the purpose of financing an IGA Subproject under Part A of the Project;

(ff) “*Woreda* Development Committee” means a development committee established under the Project in selected parts of the Borrower’s *Amhara, Oromiya, SNNP, and Tigray* Regions to carry out the appraisal and approval of eligible IGA Subprojects; and

(gg) “*Zones, Woredas, and Kebeles*” 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 sixty-eight million one hundred thousand Special Drawing Rights (SDR 68,100,000).

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 (i) 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; and (ii) amounts paid (or, if the Association shall so agree, to be paid) by FSD on account of withdrawals made for the benefit of a Beneficiary Community or a Recipient under an IGA Grant or a CB Grant respectively, to meet the reasonable cost of goods and services required for an IGA Subproject or a CB Subproject, to be financed under Parts A and B, respectively, of the Project, and in respect of which the withdrawal from the Credit Account is requested.

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

Section 2.03. The Closing Date shall be June 30, 2009 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 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 May 15 and November 15 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

May 15 and November 15 commencing November 15, 2012 and ending May 15, 2042. Each installment to and including the installment payable on May 15, 2022 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 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 agricultural, health, public utility, administrative practices, and with due regard for environmental practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the 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 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

(b) afford the Association a reasonable opportunity to exchange views with the

Borrower on said plan.

Section 3.04 Without limitation to its obligations under Section 3.01 of this Agreement, the Borrower, 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 a commercial bank 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* 7,500,000 to finance the Borrower's contribution to the Project;

(c) thereafter deposit into the Project Account by July 31 in each Fiscal Year during Project implementation such amount as shall be required to timely replenish the Project Account back to the amount of the initial deposit referred to in paragraph (b) above; and

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

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 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 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 Financial Monitoring Reports and 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 Financial Monitoring Reports and 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 Borrower's progress reporting obligations set out in paragraph 7 (a), (b) and (c) of Schedule 4 to this Agreement, the Borrower shall prepare and furnish to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and thereafter not later than 45 days after each calendar quarter, a Financial Monitoring Report for such period, in form and substance satisfactory to the Association which:

- (i) sets forth actual and projected 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 projected and actual sources and 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 previously forecast and actual implementation targets; 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

Remedies of the Association

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

ARTICLE VI

Effective Date; Termination

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

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

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

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

(d) the Borrower has completed the work program, including the budget and the procurement plan for the first year of Project implementation, satisfactory in form and substance to the Association; and

(e) the Borrower has staffed FSD and all RFSCOs with personnel having experience and qualifications satisfactory to the Association, including for FSD: (i) a Project Coordinator, (ii) a Financial Officer, (iii) a Procurement Officer, and (iv) a Monitoring and Evaluation Officer, and has employed them in accordance with the provisions of Section II of Schedule 3 to this Agreement.

By /s/ Kassahun Ayele
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ishac Diwan
Acting Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

General

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:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	2,400,000	100% of foreign expenditures and 90 % of local expenditures
(2) Consultants' services and training	8,100,000	100 % of foreign expenditures and 85% of local expenditures
(3) Grants	51,900,000	100% of amounts disbursed
(4) Operating costs	2,600,000	70 %

(5) Unallocated	3,100,000
TOTAL	68,100,000

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;

(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; and

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

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;

(b) Category (3), unless: (i) an IGA Grant Agreement has been entered into between a *Woreda* and a Beneficiary Community; and (ii) a CB Grant Agreement has been entered into between: (A) a *Woreda* and a Regional Government, or (B) RFSCO and a Regional or Local government, all in accordance with the procedures and the terms and conditions referred to in Schedule 4 to this Agreement and set forth in detail in the Project Implementation Manual, as shall be evidenced by the first such IGA Grant Agreement and CB Grant Agreement furnished to the Association for its prior approval.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts costing less than \$100,000 equivalent each; (ii) services under contracts costing less than \$100,000 equivalent each for consulting firms and less than \$30,000 equivalent each for individual consultants; (iii) grants; and (iv) operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to build the resource base of poorer rural households, increase their employment and incomes, reduce their real costs of food, and improve their nutrition levels especially for children under five years of age, pregnant and lactating women.

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: Support to Communities

1. Provision of grants to *Woredas* for the benefit of Beneficiary Communities for the carrying out of community-initiated subprojects in income generation or asset increasing activities, including, *inter alia*, diversification of agriculture, small-scale irrigation, development of dairy activities, soil conservation and water harvesting catchment investments, agro-processing and marketing, crop enhancement, and child growth promotion activities such as weighing, inadequate weight gain identification and counseling, community recommendations about improved feeding, health and collective child-care needs.
2. Provision of technical advisory services to Beneficiary Communities for the identification, preparation and processing of IGA Subprojects.
3. Carrying out of workshops, meetings and seminars for dissemination of Project concepts and procedures, training of trainers, facilitators, and supervisors.
4. Carrying out of advocacy activities and social mobilization for the promotion of community-based child growth initiatives.
5. Acquisition of goods and equipment for nutritional purposes, including drugs and micronutrients.
6. Carrying out of a communication strategy for child growth promotion.

Part B: Institutional Capacity Building

1. Provision of technical advisory services and carrying out of workshops, study tours and training programs for capacity building in income generation activities and child growth promotion interventions for selected personnel of various agencies of the Borrower involved in Project implementation at *Woreda*, regional and federal levels.
2. Acquisition of office equipment, vehicles, transport animals and other transport material and equipment.

3. Provision of CB Grants to *Woredas*, *Regions* and federal ministries of the Borrower for the carrying out of training activities.

Part C: Food Marketing Initiatives

Improving the marketing, trading, transportation and processing of food in order to reduce transaction costs thereof and improve food security through the carrying out of studies for:

- (a) an improved management of food aid to secure a stable price environment for producers and traders;
- (b) the establishment of a market information system for analyzing food trade market and price trends for the private sector;
- (c) the development of a warehouse receipt and food inventory credit system for traders; and
- (d) the development of a competitive and efficient market in warehousing services sufficient to support a warehouse receipt system.

Part D: Communication Interventions

1. Design and implementation of a communications strategy for enhancing the quality of IGA and CB Subprojects and child growth promotion interventions, including dissemination of lessons learned and good practices, of said strategy.

2. Carrying out a message and materials development workshop with representatives of all levels of government, Donors, NGOs and the private sector.

Part E: Project Administration And Monitoring

1. Supporting Project coordination activities of: (i) FSD at federal level, and (ii) RFSCOs at regional level.

2. Establishment of a monitoring and evaluation system for the Project.

* * *

The Project is expected to be completed by December 31, 2008.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good 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 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines).

Part B: International Competitive Bidding

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

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a) Grouping of contracts

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

(b) Preference for domestically manufactured goods and domestic contractors

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

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$700,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National or International Shopping

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$300,000 equivalent, may be procured under contracts awarded on the basis of national or international shopping procedures, subject to local availability of such goods, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Goods estimated to cost \$100,000 or less equivalent per contract, up to an aggregate amount not to exceed \$1,000,000 may be procured from the Inter-Agency Procurement Services Office (IAPSO) of the United Nations Development Programme (UNDP) or the United Nations Procurement Agency (UNIPAC) in accordance with the provisions of paragraph 3.9 of the Guidelines.

4. Community Participation

Goods and works required for IGA and CB Subprojects under Parts A and B of the Project shall be procured in accordance with the Project Implementation Manual and procedures acceptable to 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 procured under competitive bidding and estimated to cost the equivalent of \$100,000 or more for goods, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first 3 contracts procured under shopping procedures and estimated to cost the equivalent of \$30,000 or less each, the following procedures shall apply:

- (i) prior to the execution of any contract under shopping procedures, the Borrower shall provide to the Association a report on the comparison and evaluation of quotations received;
- (ii) prior to the execution of any contract procured under shopping procedures, the Borrower shall provide to the Association a copy of the

specifications and the draft contract; and

- (iii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with 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 (the Consultant Guidelines).

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 for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for financial and technical audits and services of a standard nature estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services for architectural design, civil works supervision, preparation of bidding documents and training estimated to cost less than \$50,000 equivalent per contract up to an aggregate amount not to exceed \$2 million, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services for simple tasks which are estimated to cost less than \$5,000 equivalent per contract, and local community services, not to exceed \$250,000 in the aggregate, may with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services for the organization of seminars, the carrying out of small studies, and 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 \$30,000 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

Institutional arrangements

1. (a) The Borrower shall maintain FSD and RFSCOs at all times during Project implementation:

(i) to be responsible for the coordination of Project activities at federal and regional levels, including financial management thereof; and

(iii) with staff having qualifications, experience and under terms of reference satisfactory to the Association, including, *inter alia*, a Project Coordinator, a Financial Officer and an Assistant Financial Officer, a Monitoring and Evaluation Specialist, a Communication and Information Specialist and a Procurement Specialist.

(b) The Borrower shall maintain FSD under the administrative authority of the Borrower's Ministry of Rural Development.

2. The Borrower shall maintain the National Food Security Steering Committee for overall leadership and guidance at all times during Project implementation. NFSSC shall be comprised of representatives of: (i) the Ministries of Finance and Economic Development, Rural Development, Agriculture, Health, Water resource Development, Federal Affairs, and Women's Affairs; and (ii) the heads of RFSCOs for the *Amhara, Oromiya, SNNP and Tigray* Regions.

Execution covenants

3. The Borrower shall:

(a) prepare and furnish to the Association by June 30, 2003, or such later date as the Association and the Borrower shall agree, multi-annual targets for monetized food aid as identified, in form and substance satisfactory to the Association;

(b) based upon the recommendations of a study, prepare and furnish to the Association not later than December 31, 2003, a plan to ensure a competitive and efficient market in warehousing services sufficient to support a warehouse receipt system, in form and substance satisfactory to the Association, and thereafter not later than June 30, 2004 implement

such plan;

(c) carry out, not later than June 30, 2003, a study for the establishment of an information system to provide the private sector food trade with quality analysis of market and price trends, thereafter establish, not later than December 31, 2003, a funding mechanism for such system;

(d) develop, not later than December 31, 2003, a legal framework for the establishment of a warehouse receipt and inventory credit system; and thereafter establish, not later than June 30, 2004, the relevant regulatory capacity;

(e) prepare and furnish to the Association, not later than December 31, 2002, guidelines for NGO participation in the Project, including assistance to communities with planning and implementation of income generation activities; and

(f) prepare and furnish to the Association annual progress reports of procurement activities under the Project, commencing one calendar year after the Effective Date.

4. The Borrower shall: (i) maintain the Project Implementation Manual and all schedules thereof for the implementation of all components of the Project; (ii) take all measures necessary to ensure that the Project is carried out in conformity with the Project Implementation Manual; and (iii) not amend or waive any provision thereof, which in the opinion of the Association may materially and adversely affect the implementation of the Project.

Eligibility Criteria for IGA Subprojects and CB Subprojects

5. Without limitation to the provisions of paragraph 4 of this Schedule, no Subproject shall be eligible for financing out of the proceeds of the Credit unless: (i) a *Kebele* Food Security Committee or a *Woreda* Development Committee shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Project Implementation Manual, that the IGA Subproject satisfies the eligibility criteria specified in the Project Implementation Manual; and (ii) RFSCO shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Project Implementation Manual, that the CB Subproject satisfies the eligibility criteria specified in the Project Implementation Manual, all of which shall include the following:

(a) the Subproject shall be for the carrying out of: (i) income generating activities; and (ii) training and capacity building services for improved service delivery, administrative and advisory capacity to local governments and Beneficiary Communities;

(b) the Subproject shall be responsive and demand-driven, prepared by (i) a Beneficiary Community under Part A of the Project, submitted to and technically appraised by a KFSC and approved by a *Woreda* Development Committee; and (ii) a Local or Regional Government, under Part B of the Project, submitted to and technically appraised by and approved

by a RFSCO; and

(c) the IGA Subproject and the CB Subproject shall be in compliance with the standards set forth in the laws of the Borrower relating to safety and environmental protection.

Terms and conditions of the IGA Grant Agreements and CB Grant Agreements

6. In financing: (i) an IGA Subproject, a *Woreda* shall enter into an IGA Grant Agreement with a Beneficiary Community; and (ii) a CB Subproject, a regional government or a RFSCO shall enter into a CB Grant Agreement with a Recipient, all of which shall set forth the respective obligations of the parties thereunder, under terms and conditions which shall include the following:

(a) financing for the Subproject shall be on a grant basis, not to exceed \$18,000 equivalent per IGA Grant Agreement and \$25,000 equivalent per CB Grant Agreement;

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

(c) the requirement that the proceeds of the IGA Grant Agreement and the CB Grant Agreement be used exclusively for the purposes specified in the IGA Subproject and the CB Subproject as approved;

(d) the requirement that each Beneficiary Community, *Woreda*, Region, Federal Ministry, and Recipient maintain an accounting and financial management system, including records and separate accounts, in a format satisfactory to the relevant approving authorities, reflecting the operations, resources and expenditures related to the IGA Subprojects and CB Subprojects;

(e) the right of *Woreda* Development Committee, FSD and RFSCO to inspect by themselves or jointly with the Association the services, goods, works and constructions included in the IGA Subproject and the CB Subproject, the operation thereof and any record or relevant document; and

(f) the right of a *Woreda* Development Committee, (FSD and RFSCO) to (A) suspend or terminate the right of a Beneficiary Community or a Recipient to use the proceeds of the Credit thus made available upon failure by such *Woreda*, Regional or Local Government, or Recipient to perform any of its obligations under the IGA Grant Agreement or the CB Grant Agreement; (B) the subsequent refund by the *Woreda* or the Recipient of any such proceeds upon the occurrence of the foregoing suspension or termination of rights under an IGA Grant

Agreement or a CB Grant Agreement.

Reviews

7. The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2004, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report, including procurement thereof, 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 June 30, 2005 or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

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 \$6,000,000 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 \$2,000,000 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 SDR 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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the 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 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 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.

SCHEDULE 6

Performance Indicators

Unless otherwise agreed to by the Association, for the purpose of this Agreement, the performance indicators to be used for the implementation of the Project are as follows:

1. Participation by Woredas and Kebeles

Number of *Woredas* and *Kebeles* participating in the project meets or exceeds agreed targets set forth in the Project Implementation Manual.

2. Flow of funds to beneficiary communities

Grant flows to *Woredas* and *Kebeles* meets or exceeds agreed targets set forth in the Project Implementation Manual.

3. Food Marketing Interventions

Food price data collected more frequently for a wider range of markets and products, capacity to analyze food markets enhanced, and findings widely disseminated.

4. Gender Participation

At least 25% women participation in capacity building and income generating activities.

