

CONFORMED COPY

**CREDIT NUMBER 3434 ER
GRANT NUMBER H051 ER**

Development Grant Agreement

(Emergency Reconstruction Project – Supplemental Financing)

between

STATE OF ERITREA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 25, 2003

CREDIT NUMBER 3434 ER
GRANT NUMBER H051 ER

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, June 25, 2003, between STATE OF ERITREA (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Recipient and the Association have entered into a Development Credit Agreement (Emergency Reconstruction Project) dated December 6, 2000, as amended from time to time (the Development Credit Agreement), for the purpose of assisting in the financing of the project described in Schedule 2 to the Development Credit Agreement (the Project);

(B) Part C of the Project is carried out by Bank of Eritrea (BE) with the Recipient's assistance, and, as part of such assistance, the Recipient has made available to BE the proceeds of the Credit as provided in the Development Credit Agreement;

(C) the Recipient has requested the Association to provide further additional assistance in support of the Project by increasing the amount made available under the Development Credit Agreement by an amount in various currencies equivalent to ten million nine hundred thousand Special Drawing Rights (SDR 10,900,000);

(D) the Association was authorized under Resolution No. 549, adopted by its Board of Governors on September 29, 2002, to use the funds transferred to the Association out of the Bank's fiscal year 2002 net income to provide financing in the form of grants and the development grant set forth in Section 2.01 of this Agreement (the "Grant") is being financed out of the funds so transferred; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Grant to the Recipient 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. (a) The following provisions of 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 in paragraph (b) of this Section (the General Conditions), constitute an integral part of this Agreement:

- (i) Article I;
 - (ii) Article II;
 - (iii) Section 3.01;
 - (iv) Sections 4.01, 4.02, 4.05 and 4.06;
 - (v) Article V;
 - (vi) Sections 6.01, 6.02, 6.03, 6.04 and 6.06;
 - (vii) Article VIII;
 - (viii) Article IX;
 - (ix) Article X;
 - (x) Article XI; and
 - (xi) Sections 12.01, 12.02, 12.03, 12.04 and 12.05.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
 - (ii) the term “Development Credit Agreement”, wherever used in the General Conditions, means this Agreement;
 - (iii) the term “Credit” and “credit”, wherever used in the General Conditions, means the Grant; and
 - (iv) the term “Credit Account”, wherever used in the General Conditions, means the Grant Account.

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

(a) “Development Credit Agreement” means the agreement dated December 6, 2000 for the Project, between the Recipient and the Association, as such agreement may be amended from time to time, and such term includes the “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through October 6, 1999);

(b) “Environmental Analysis” or “EA” means the Environmental Analysis of the Project, dated October 30, 2001, and to be updated in a form and substance satisfactory to the Association and submitted to the Association pursuant to Section 3.01 (d) of this Development Grant Agreement;

(c) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 3.02 of this Agreement; and

(d) “Integrated Pest Management Plan” of “IPMP” means the Integrated Pest Management Plan of the Project, setting forth a strategy and an action plan for adequate pest management practices, including vaccines, veterinary drugs and supplies, to be prepared by the Recipient as part of the updated EA, in a form and substance satisfactory to the Association and submitted to the Association pursuant to Section 3.01 (d) of this Development Grant Agreement.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to ten million nine hundred thousand Special Drawing Rights (SDR 10,900,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant 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 costs of goods, works and services required for the Project and to be financed out of the proceeds of the Grant.

(b) The Recipient may, for the purpose of the Project, open and maintain in dollars a special deposit account in BE 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 the Development Credit Agreement.

Section 2.03. The Closing Date shall be December 31, 2004, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant 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 Recipient from the Grant 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 2.05 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 Recipient; 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. Commitment charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.06. 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. Subject to paragraph (b) of this Section, Sections 3.01 (a) (i), (b) 3.02, 3.03, 4.01, 5.01 and 5.02 of the Development Credit Agreement and Schedules 1 (except the table in paragraph 1 thereof), 2, 3, 4, 5 and 6 thereto are incorporated in the Development Grant Agreement, with the following modifications in said Sections and Schedules, unless the context otherwise requires:

- (a) the term "Credit" shall be read as "Grant";
- (b) the term "Borrower" shall be read as "Recipient";
- (c) the term "this Agreement" or "the Development Credit Agreement" shall be read as "the Development Grant Agreement";

(d) new sub-paragraphs (e) and (f) are inserted under paragraph 1 of Schedule 4 to the Development Credit Agreement, to read as follows:

“ 1. (e) Updated EA

The Recipient shall:

- (i) not later than three months after the Effective Date of this Agreement, prepare and submit to the Association an updated EA, in a form and substance satisfactory to the Association; and
- (ii) ensure that the Project implementation shall at all times be carried out in compliance with the screening process mechanisms established in the updated EA to identify environmental and social adverse effects and address them;

(f) IPMP

The Recipient shall:

- (i) not later than three months after the Effective Date of this Agreement prepare, as part of the updated EA, and submit to the Association a IPMP, in a form and substance satisfactory to the Association; and
- (ii) ensure that purchase of any vaccines, veterinary drugs and supplies, and any pesticides, herbicides or sprayers by farmers shall be in compliance with the requirements of the IPMP, acceptable to and approved by the Association.”; and

(e) paragraph 4 of Schedule 4 to the Development Credit Agreement shall be renumbered as paragraph 3.

Section 3.02. (a) Without limitation upon the provisions of Section 4.01 of the Development Credit Agreement, and the Recipient’s reporting obligations set out in Schedule 4 to the Development Credit Agreement, the Recipient 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 Grant, 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 Grant 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 IV

Effective Date; Termination

Section 4.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) the Recipient has furnished to the Association a work plan and procurement plan, in form and substance satisfactory to the Association;
- (b) the Recipient has furnished to the Association a copy of the audit report of the Project accounts pursuant to Section 4.01 of the Development Credit Agreement, in a form and substance satisfactory to the Association; and
- (c) the Recipient has furnished to the Association the terms of reference for carrying out the EA and IPMP, in form and substance satisfactory to the Association.

Section 4.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE V

Representative of the Recipient; Addresses

Section 5.01. The Minister of the Recipient at the time responsible for Finance is designated as representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 5.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

Ministry of Finance
P.O. Box 895
Asmara
State of Eritrea

Facsimile:

(257) 22 38 27

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.

STATE OF ERITREA

By /s/ Girma Asmerom
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be financed</u>
(1) Goods		100% of foreign expenditures and 100% of ex-factory price of locally manufactured items and 95% of other local expenditures
(a) Part A of the Project	2,290,000	
(b) Part B of the Project	4,800,000	
(c) Part D of the Project	650,000	
(2) Works		100% of foreign expenditures and 100% of ex-factory price of local construction materials and 95% of other local expenditures
(a) Part A of the Project	1,125,000	
(b) Part B of the Project	600,000	
(c) Part D of the Project	650,000	
(3) Consultants' services	35,000	100% of foreign expenditures and 85% of local expenditures
(4) Unallocated	750,000	
	<u>=====</u>	
TOTAL	<u>10,900,000</u>	