

CONFORMED COPY

CREDIT NUMBER 3019 ET

Development Credit Agreement

(Second Energy Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 25, 1998

CREDIT NUMBER 3019 ET

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated January 25, 1998, 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, November 13, 1997, from the Borrower describing a program of actions, objectives and policies designed to improve the efficiency of the Borrower's power sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) Parts A, C.2, C.3, C.4 and C.5 of the Project will be carried out by the Ethiopian Electric Power Corporation (EEPCO) with the Borrower's assistance and, as part of such assistance, the Borrower will make available to EEPCO part of the proceeds of the Credit as provided in this Agreement;

(D) the Borrower intends to contract from the European Investment Bank (EIB) a loan in an amount of forty-two million United States dollars (\$42,000,000) (the EIB Loan) to assist in the financing of the Project on the terms and conditions set forth in an agreement (the EIB Agreement) to be entered into between the Borrower and EIB; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

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

(a) The last sentence of Section 3.02 is deleted.

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

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

(c) Section 6.03 is modified to read:

"Section 6.03. Cancellation by the Association. If (a) the right of the Borrower to make withdrawals from the Credit Account shall have been suspended with respect to any amount of the Credit for a continuous period of thirty days, or (b) at any time, the Association determines, after consultation with the Borrower, that an amount of the Credit will not be required to finance the Project's costs to be financed out of the proceeds of the Credit, or (c) at any time, the Association determines, with respect to any contract to be financed out of the proceeds of the Credit, that corrupt or fraudulent practices were engaged in by representatives of the Borrower or of a beneficiary of the Credit during the procurement or the execution of such contract, without the Borrower having taken timely and appropriate action satisfactory to the Association to remedy the situation, and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (d) at any time, the Association determines that the procurement of any contract to be financed out of the proceeds of the Credit is inconsistent with the procedures set forth or referred to in the Development Credit Agreement and establishes the amount of expenditures in respect of such contract which would otherwise have been eligible for financing out of the proceeds of the Credit, or (e) after the Closing Date, an amount of the Credit shall remain unwithdrawn from the Credit Account, the Association may, by notice to the Borrower, terminate the right of the Borrower to make withdrawals with respect to such amount. Upon the giving of such notice, such amount of the Credit shall be canceled."

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) "Borrower's Project Implementation Plan" means the plan described in the Borrower's letter, dated November 18, 1997, specifying, inter alia, procedures, timetables, and other arrangements agreed upon between the Borrower and the Association for the purpose of the implementation of Parts B.1, B.2 and C.1 of the Project;

(b) "EEPKO's Project Implementation Plan" means the plan described in EEPKO's letter, dated November 18, 1997, specifying, inter alia, procedures, timetables, and

other arrangements agreed upon between EEPCO and the Association for the purpose of the implementation of EEPCO's Parts of Project (as hereinafter defined);

(c) "EEPCO's Parts of the Project" means Parts A, C.2, C3, C.4 and C.5 of the Project;

(d) "EEPCO" means the Ethiopian Electric Power Corporation, established pursuant to the Borrower's Council of Ministers' Regulation No. 18/1997 of July 7, 1997 (EEPCO-Regulation), which is the successor of the Ethiopian Electric Light and Power Authority (EELPA) which was established pursuant to the Borrower's General Notice No. 213-1956;

(e) "Environmental Mitigation Plan" means the plan, dated November 13, 1997 and referred to in Part A.3 of the Project, containing actions, procedures, timetables, and other arrangements designed to mitigate the Project's potential adverse impact on the environment;

(f) "Ethiopian Birr" and "Birr" mean the currency of the Borrower;

(g) "MME" means the Borrower's Ministry of Mines and Energy;

(h) "MOA" means the Borrower's Ministry of Agriculture;

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

(j) "Resettlement Plan" means the plan, dated November 13, 1997 and referred to in Part A.3 of the Project, containing actions, procedures, timetables and other arrangements for the resettlement of persons to be affected by the Project;

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

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

ARTICLE II

The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to one hundred forty-six million one hundred thousand Special Drawing Rights (SDR 146,100,000).

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 expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars three separate special deposit accounts (the Special Account A for EEPCO's Parts of the Project, the Special Account B for Part B.1 and C.1 of the Project, and the Special Account C for Part B.2 of the Project) in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against setoff, seizure and attachment. Deposits into, and payments out of, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn

balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be January 31, 2004 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 May 15, 2008 and ending November 15, 2037. Each installment to and including the installment payable on November 15, 2017 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.

Section 2.09. EEPCO is designated as representative of the Borrower for the purposes of taking any action required or permitted to be taken under the provisions of Section 2.02 of this Agreement and Article V of the General Conditions in respect of EEPCO's Parts of the Project.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objective of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out Parts B.1, B.2 and C.1 of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for Parts B.1, B.2 and C.1 of the Project.

(b) Without any limitation or restriction upon any of its other obligations under this Agreement, the Borrower shall cause EEPCO to carry out EEPCO's Parts of the Project with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering, environmental, and technical practices, and shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable EEPCO to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(c) Without limitation upon the provisions of paragraph (a) of this Section and, except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out Parts B.1, B.2 and C.1 of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

(d) For the purposes of EEPCO's Parts of the Project, the Borrower shall relend the proceeds of the Credit allocated from time to time to Categories (1), (2), (3), (4) (a), (5) (a) and (6) (a) of the table in paragraph 1 of Schedule 1 to this Agreement to EEPCO under a subsidiary loan agreement to be entered into between the Borrower and EEPCO (the EEPCO Subsidiary Loan Agreement) under terms and conditions which shall have been approved by the Association. Except as the Association shall otherwise agree, such terms and conditions shall include the following:

(i) the principal amount of the subsidiary loan shall be repaid by EEPCO in Birr to the Borrower in equal semiannual installments over twenty-five years, including a grace period of five years;

(ii) the principal amount of the subsidiary loan repayable by EEPCO shall be the equivalent in Birr (determined as of the date, or respective dates, of repayment) of the value of the currency or currencies withdrawn from the Credit Account in respect of the above-mentioned categories; and

(iii) interest shall be charged on the outstanding balance of the subsidiary loan at a rate of 7.19 % per annum.

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

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

Schedule 3 to this Agreement.

Section 3.03. The Borrower and the Association hereby agree that 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 EEPCO's Parts of the Project shall be carried out by EEPCO pursuant to Section 2.03 of the EEPCO Project Agreement.

Section 3.04. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association and furnish to the Association not later than six (6) months after the Closing Date, or such later date as may be agreed for this purpose between the Borrower and the Association, a plan for the continued achievement of the objectives of Parts B.1, B.2 and C.1 of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.05. The Borrower shall take all action necessary or appropriate on its part to enable EEPCO to implement the Environmental Mitigation Plan and the Resettlement Plan, and shall not take or permit to be taken any action which would prevent or materially interfere with the implementation by EEPCO of each of the said plans.

ARTICLE IV

Other Covenants

Section 4.01. (a) The Borrower shall maintain, or cause to be maintained, records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out Parts B.1, B.2 and C.1 of the Project.

(b) The Borrower shall:

(i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Accounts B and C for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six (6) months after the end of each such year, the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and

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

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

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

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

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

and

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

Section 4.02. The Borrower and the Association shall, from time to time, at the request of either party, exchange views with regard to the progress achieved in carrying out the Program, including the Borrower's pricing policies and its plans in respect of the overall development of its power sector.

Section 4.03. The Borrower shall take all action necessary or appropriate on its part to enable EEPCO to carry out its obligations under Sections 4.02 to 4.07 of the Project Agreement.

Section 4.04. Except as the Association shall otherwise agree, the Borrower shall not, until the completion of the Project, extend to EEPCO any non-reimbursable financial assistance, provided, however, that the Borrower may: (i) extend to EEPCO a non-reimbursable financial assistance for the rehabilitation and expansion of its power generation, transmission and distribution systems specified in the Borrower's 1997-2006 investment program, and (ii) provide EEPCO with non-reimbursable financial contributions for the execution of social programs required to be carried by EEPCO on behalf of the Borrower.

Section 4.05. Until the completion of the Project, the Borrower shall: (a) ensure that prices for electricity allow EEPCO, under conditions of efficient operation at reasonable levels of capacity utilization, to cover its operating costs including taxes, earn an adequate return on funds invested in them, meet its financial obligations and make a reasonable contribution to future investment for expansion of capacity; and (b) subject to the achievement of the objective in subparagraph (a) above, pass on the benefit of declines in the real costs of production to EEPCO's customers, through reduction in prices in real terms.

Section 4.06. The Borrower shall adopt, by November 30, 2001, an action plan, including a tariff escalation formula, in form and substance acceptable to the Association, for the implementation of the recommendations of the tariff study to be carried out under Part C.1 of the Project, and thereafter implement said action plan with due diligence and efficiency.

ARTICLE V

Remedies of the Association

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

(a) A situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

(b) EEPCO shall have failed to perform any of its obligations under the Project Agreement.

(c) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that EEPCO will be able to perform its obligations under the Project Agreement.

(d) EEPCO-Regulation shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of EEPCO to perform any of its obligations under the Project Agreement.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of EEPCO or for the suspension of

its operations.

- (f) (i) Subject to subparagraph (ii) of this paragraph:
- (A) the right of the Borrower to withdraw the proceeds of the EIB Loan shall have been suspended, canceled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor; or
- (B) such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:
- (A) such suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
- (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

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

- (a) any event specified in paragraph (b) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower;
- (b) any events specified in paragraphs (d) and (e) of Section 5.01 of this Agreement shall occur; and
- (c) the event specified in paragraph (f) (i) (B) of Section 5.01 of this Agreement shall occur, subject to the proviso of paragraph (f) (ii) of that Section.

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 units referred to in paragraph 3 of Schedule 4 to this Agreement and in paragraph 2 of the Schedule to the Project Agreement, have each been established under terms and reference acceptable to the Association; and
- (b) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and EEPCO.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

- (a) the Project Agreement has been duly authorized by EEPCO, and is legally binding upon EEPCO in accordance with its terms; and
- (b) the Subsidiary Loan Agreement has been duly authorized by and is legally binding upon EEPCO in accordance with its terms.

Section 6.03. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. Except as provided in Section 2.09 of this Agreement, the Minister of the Borrower at the time responsible for finance is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

Telex:

21147

For the Association:

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

Cable address:

Telex:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145 (MCI)

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

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Sufian Ahmed

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Civil works	98,000,000	100% of foreign expenditures and 85% of local expenditures
(2) Equipment and installation under Part A.1 of the Project	20,000,000	100% of foreign expenditures and 85% of local expenditures
(3) Vehicles and materials under Part A.1 of the Project	3,000,000	100% of foreign expenditures and 95% of local expenditures
(4) Equipment, vehicles and materials		100% of foreign expenditures and 95% of local expenditures
(a) under Parts A.2, A.3, C.2, C.3, C.4 and C.5 of the Project	790,000	
(b) under Parts B.1 and C.1 of the Project	600,000	
(c) under Part B.2 of the Project	1,340,000	
(5) Training		100%
(a) under Parts A, C.2, C.3, C.4 and C.5 of the Project	430,000	
(b) under Parts B.1 and C.1 of the Project	40,000	
(c) under Part B.2 of the Project	140,000	
(6) Consultants' services		100%
(a) under Parts A, C.2, C.3, C.4 and C.5 of the Project	5,260,000	
(b) under Parts B.1 and C.1 of the Project	460,000	
(c) under Part B.2 of the Project	1,370,000	
(7) Refunding of Project to Preparation Advance	440,000	Amount due pursuant Section 2.02 (c) of this Agreement
(8) Unallocated	14,230,000	

TOTAL

146,100,000

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; and

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; provided, however, that if the currency of the Borrower is also that of another country from the territory of which goods or services are supplied, expenditures in such currency for such goods or services shall be deemed to be "foreign expenditures".

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure, under such terms and conditions as the Association shall specify by notice to the Borrower, for expenditures for: (a) goods and works under contracts not exceeding \$100,000 equivalent; and (b) consultants' services under contracts not exceeding \$100,000 equivalent for consulting firms and \$50,000 for individual consultants.

SCHEDULE 2

Description of the Project

The objective of the Project is to increase the efficiency, and sustainability of the Borrower's power sector.

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 objective:

Part A: Gilgel Gibe Hydroelectric Station and Transmission System

1. Construction of a hydroelectric power station, consisting of an underground powerhouse with three units of 61.3 MW each, on the Gilgel Gibe river, and rehabilitation and upgrading of associated power transmission lines and substations, through the carrying out of civil works, acquisition and installation of equipment, and provision of technical advisory services and training.

2. Improving the efficiency and safety of EEPCO's power generation operations through the acquisition of equipment, provision of technical advisory services and training for: (i) the establishment and operation of a dam safety unit within EEPCO, (ii) the establishment of a maintenance system for the Gilgel Gibe power plant and transmission system, and (iii) the establishment of a system to optimize the use of EEPCO's dam reservoirs.

3. Acquisition of equipment and provision of technical advisory services for the implementation of: (a) a plan for the resettlement of persons to be affected by Part A.1 of the Project, and (b) a plan designed to mitigate the Project's potential adverse effect on the environment.

Part B: Rural Energy

1. Implementation of a program aimed at, inter alia, strengthening the Borrower's capacity in rural energy applied research, through acquisition of equipment, provision of technical advisory services and training.

2. Carrying out an inventory of woody biomass resources in the Borrower's territory, through acquisition of equipment, provision of technical advisory services and training.

Part C: Institutional Development

1. Preparation of an appropriate legal and regulatory framework for the Borrower's power sector, aimed at improving the efficiency of the sector and promoting private sector investment therein, including the carrying out of a tariff study, through provision of technical advisory services, and training.
2. Implementation of a restructuring program designed to strengthen the administrative, financial, accounting, technical and commercial capacities of EEPCO and to increase its autonomy and accountability, through acquisition of computer hardware and software, and provision of technical advisory services and training.
3. Updating of EEPCO's power expansion plan and improving its operations planning, through acquisition of equipment, and provision of technical advisory services.
4. Preparation and implementation of a human resource development program for EEPCO.
5. Carrying out an evaluation of EEPCO's fixed assets, through provision of technical advisory services.

* * *

The Project is expected to be completed by July 31, 2003.

SCHEDULE 3

Procurement

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 (the Guidelines) and the following provisions of this Section.

Part B: International Competitive Bidding

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

(a) Prequalification

Bidders for works required under Part A of the Project for the construction of the power tunnel, and the dam shall be prequalified in accordance with the provisions of paragraphs 2.9 and 2.10 of the Guidelines.

(b) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$250,000 equivalent or more each.

(c) 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 and works to be carried out by domestic contractors.

(d) Notification and Advertising

The invitation to prequalify or bid for each contract estimated to cost \$10,000,000 equivalent or more shall be advertised in accordance with the procedures applicable to large contracts under paragraph 2.8 of the Guidelines.

Part C: Other Procurement Procedures.

1. National Competitive Bidding

Goods estimated to cost less than \$250,000 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. International Shopping

Goods estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$350,000 equivalent, may be procured under contracts awarded on the basis of international shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Procurement from UN Agencies

Vehicles estimated to cost less than \$200,000 equivalent per contract, up to an aggregate amount not to exceed \$760,000 equivalent, may be procured from IASPO in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to each contract for works, and each contract for goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

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

Section II. Employment of Consultants

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 Bank in January 1997 (the Consultant Guidelines) and the following provisions of Section II of this Schedule.

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 under Part B of the Project, 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. Quality-based Selection

Services under Part C.1 of the Project shall be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Single Source Selection

Services under Parts C of the Project which are estimated to cost less than \$50,000 equivalent per contract, 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.

3. Individual Consultants

Services for tasks that meet the requirements set forth in paragraph 5.01 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 \$200,000 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 consulting firms estimated to cost the equivalent of \$100,000, or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

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

3. Post Review

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

SCHEDULE 4

Implementation Program

1. MME shall be responsible for the implementation of Parts B.1 and C.1 of the Project, and MOA shall be responsible for the implementation of Part B.2 of the Project.

2. Except as the Association shall otherwise agree, the Borrower shall: (i) carry out Parts B.1, B.2 and C.1 of the Project in accordance with the Borrower's 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 said Parts of the Project.

3. The Borrower shall establish, and thereafter maintain until the completion of the Project: (i) a unit, within MME, with terms of reference acceptable to the Association, to be responsible for the coordination of the implementation of Parts B.1 and C.1 of the Project; and (ii) a unit, within MOA, with terms of reference acceptable to the Association, to be responsible for the coordination of the implementation of Part B.2 of the Project. Said units shall be headed by coordinators whose qualifications and experience shall be at all times satisfactory to the Association, and shall consist of suitably qualified staff in adequate numbers.

4. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators, satisfactory to the Association, the carrying out of Parts B.1, B.2. and C.1 of the Project and the achievement of the objectives thereof;

(b) not later than October 31 of each year, commencing on October 31, 1998, undertake, in conjunction with the Association and EEPCO, a joint annual review on all matters relating to the progress of the Project and, in particular the progress achieved by the Borrower and EEPCO during the current fiscal year, having regard to the monitoring indicators referred to in subparagraph (a) of this paragraph;

(c) not later than one month prior to each annual review, furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, on the progress of the Project; and

(d) following each annual review, act promptly and diligently in order to take, or assist EEPCO in taking, any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or to implement, or assist EEPCO in implementing, such measures as may have been agreed upon between the parties in furtherance of the objective of the Project.

5. Midterm Review

(a) On or about thirty months after the Effective Date, the Borrower shall carry out, jointly with the Association and EEPCO, a midterm review of the progress made in carrying out the Project (hereinafter referred to as the Midterm Review).

The Midterm Review shall cover, amongst other things:

- levels and structure of EEPCO's electricity tariffs;
- power sector reforms, including the legal and regulatory framework;
- implementation of the Environmental Mitigation Plan and the Resettlement Plan;
- the financial condition of EEPCO; and
- the status of the implementation of EEPCO's restructuring program.

(b) The Borrower shall, at least four weeks prior to the Midterm Review, furnish to the Association a separate report describing the status of implementation of each component of the Project and a summary report of Project implementation generally.

(c) The Borrower shall, not later than four weeks after the Midterm Review,

prepare an action program, acceptable to the Association, for the further implementation of the Project having regard to the findings of the Midterm Review and, thereafter, implement, and cause EEPCO to implement, such action program.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means, in the case of Special Account A Categories (1), (2), (3), (4) (a), (5) (a) and (6) (a) set forth in the table in paragraph 1 of Schedule 1 to this Agreement; in the case of Special Account B, Categories (4) (b), (5) (b) and (6) (b) set forth in said table, and in the case of Special Account C, Categories (4) (c), (5) (c) and (6) (c) set forth in said table;

(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 to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3 (a) of this Schedule, equivalent, in the case of Special Account A to \$1,000,000; in the case of Special Account B to \$100,000, and in the case of Special Account C to \$100,000; provided, however, that unless the Association shall otherwise agree, the Authorized Allocation for Special Account A shall be limited to an amount equivalent to \$500,000 until the aggregate amount of withdrawals from the Credit Account allocated to Categories (1), (2), (3), (4) (a), (5) (a) and (6) (a) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for EEPCO's Parts of the Project shall be equal to or exceed the equivalent of SDR 4,000,000.

2. Payments out of the respective Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the respective Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

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

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

(ii) Prior to, or at the time of, each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the respective Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the respective Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Accounts;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the respective Special Account, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Parts of the Project related to that Special Account, shall equal the equivalent of twice the amount of the Authorized Allocation for that Special Account. Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories for that Special Account shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the respective Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the respective Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Accounts.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

