

CONFORMED COPY

CREDIT NUMBER 2588 ET

Development Credit Agreement

(Calub Gas Development Project)

between

ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 23, 1994

CREDIT NUMBER 2258 ET

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated June 23, 1994, between 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 January 18, 1994 from the Borrower describing a program of actions, objectives and policies designed to achieve reform of the Borrower's energy sector (the Program) and declaring the Borrower's commitment to the execution of the Program;

(C) the Borrower intends to obtain from the African Development Bank (AfDB) a loan (the AfDB Loan) in an amount equivalent to \$20,350,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the AfDB Loan Agreement) to be entered into between the Borrower and AfDB;

(D) the Borrower intends to obtain from the Minister for Development Cooperation of the Netherlands (the Minister) a grant (the Dutch Grant) in an amount equivalent to \$4,000,000 to assist in financing the Project on the terms and conditions set forth in an agreement (the Dutch Grant Agreement)

to be entered into between the Borrower and the Minister;

(E) the Borrower intends to obtain from other donors loans or grants in an amount equivalent to \$5,000,000 to assist in the financing of Part B.3 of the Project;

(F) Part A of the Project will be carried out by Calub Gas Share Company (Calub Company), a company established and operating under the laws of the Borrower, with the Borrower's assistance and, as part of such assistance, the Borrower will make available to Calub Company a portion of the proceeds of the Credit as provided in this Agreement; and

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

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 last sentence of Section 3.02 deleted (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) "Project Preparation Advance" means the project pre- preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated August 28, 1989 and January 25, 1991 between the Borrower and the Association;

(b) "Special Account" means Special Account A or Special Account B referred to in Section 2.02 (b) of this Agreement;

(c) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and Calub Company pursuant to Section 3.01 (a) of this agreement, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Subsidiary Loan Agreement;

(d) "Project Agreement" means the agreement to be entered into between the Association and Calub Company, 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;

(e) "Calub Company" means the Calub Gas Share Company, a company established and operating under the laws of the Borrower and registered on December 3, 1993 under the Commercial Code, 1960 of the Borrower;

(f) "PITF" means the Project Implementation Task Force referred to in Section 3.04 (c) of this Agreement;

(g) "Steering Committee" means the Steering Committee referred to in paragraph 1 of Schedule 4 to this Agreement;

(h) "WACD" means the Women's Affairs Coordination Department referred to in paragraph 2 of Schedule 4 to this Agreement;

(i) "MME" means the Ministry of Mines and Energy of the Borrower;

(j) "ERA" means the Ethiopian Roads Authority;

(k) "EEA" means the Ethiopian Energy Authority;

(l) "Memorandum of Association" means the Memorandum of Association

of Calub Company dated November 24, 1993;

- (m) "LPG" means liquified petroleum gas;
- (n) "Donors" means the cofinanciers of the Project; and
- (o) "Region Five" means Region Five of the Borrower.

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 fifty-three million seven hundred thousand Special Drawing Rights (SDR 53,700,000).

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 shall, for the purposes of the Project, open and maintain in dollars two special deposit accounts, namely: (i) a special deposit account (Special Account A) in the National Bank of Ethiopia (NBE); and (ii) a special deposit account (Special Account B) in the Commercial Bank of Ethiopia (CBE), on terms and condition satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, Special Account A or Special Account B 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 cancelled.

Section 2.03. The Closing Date shall be December 31, 2,000 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 cancelled; 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 February 1 and August 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semi-annual installments payable on each February 1 and August 1 commencing August 1, 2004 and ending February 1, 2034. Each installment to and including the installment payable on February 1, 2014 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years, 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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. Calub Company is designated as representative of the Borrower in respect of Part A of the Project 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.

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:

- (i) shall carry out Parts B, C, D, E and F of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause Calub Company to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable Calub Company to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(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 Parts B, C, D, E and F of the Project in accordance with the Implementation Program set forth in Schedule 4 to

this Agreement.

Section 3.02. (a) The Borrower shall relend to Calub Company the proceeds of the Credit allocated to Categories (1), (2) (a), (3) and (4) (a) in Schedule 1 to this Agreement under a subsidiary loan agreement to be entered into between the Borrower and Calub Company, under terms and conditions which shall have been approved by the Association which shall include provisions requiring: (i) interest at the rate of fourteen percent per annum, (ii) repayment of principal in ten years, including a three years grace period, and (iii) the bearing by Calub Company of the cost of fluctuation in currencies relent to it.

(b) 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, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

Section 3.03. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for Parts B, C, D, E and F of the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.04. The Borrower shall:

(a) not later than April 30, 1996, take necessary regulatory measures to implement a revised LPG pricing policy which would include regulation of wholesale and retail prices based on import parity prices, taxes and economic cost of transportation and whole and retail distribution;

(b) not later than 18 months from the Effective Date, establish national LPG standards, including safety standards;

(c) ensure that the Project Implementation Task Force, the Coordinating Unit of the Calub Community Development Fund and the monitoring unit in charge of the environmental monitoring system shall all have adequate numbers of qualified and experienced staff; and

(d) ensure that ERA establishes and maintains institutional, organizational and budgetary arrangements, acceptable to the Borrower and the Association, for the rehabilitation and maintenance of the Harar-Shilabo road.

Section 3.05. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03 through 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedule, records, and reports, maintenance and land acquisition, respectively) in respect of Part A of the Project shall be carried out by Calub Company pursuant to Section 2.03 of the Project Agreement.

Section 3.06. (a) The Borrower and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Project.

(b) Prior to each of such exchange of views, the Borrower shall furnish to the Association, for its review and comments, a report on the progress achieved in carrying out the Project, in such detail as the Association shall reasonably request.

Section 3.07. (a) The Borrower shall not later than December 31, 1996 carry out, and cause Calub Company to carry out, jointly with the Association and the Donors, a midterm review of the Project. Such review shall include an assessment of: (i) the progress achieved in the implementation of the Project; and (ii) satisfactory compliance with the performance indicators in paragraph 5 of Schedule 4 to this Agreement.

(b) At least two months prior to such review, the Borrower shall cause PITF to prepare and furnish to the Association a report, in such detail as the Association may reasonably request, including a review of the progress achieved in carrying out the Project and an assessment of such progress based on the evaluation of the performance indicators.

(c) Promptly after the completion of the midterm review, the Borrower shall take, or cause to be taken, all necessary actions to implement recommendations emanating from the review.

Section 3.08. The Borrower shall obtain the loans or grants referred to in Recital E of this Agreement not later than June 30, 1995.

ARTICLE IV

Financial 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 Parts B, C, D, E and F of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section, including those for the Special Accounts 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 months after the end of each such year, a certified copy of 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, 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:

- (i) maintain, or cause to be maintained, in accordance with paragraph (a) of this 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 or payment out of a Special 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.

ARTICLE V

Remedies of the Association

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

- (i) a situation has arisen which shall make it improbable

that the Program, or a significant part thereof, will be carried out;

- (ii) Calub Company shall have failed to perform any of its obligations under the Project Agreement;
- (iii) 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 Calub Company, will be able to perform its obligations under the Project agreement;
- (iv) The Memorandum of Association shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of Calub Company to perform any of its obligations under the Project Agreement;
- (v) the Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of Calub Company or for the suspension of its operations; and
- (vi) subject to paragraph (b) of this Section:
 - (A) the right of the Borrower to withdraw the proceeds of any loan, credit or grant made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing therefor, or
 - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(b) Paragraph (a) (vi) of this Section shall not apply if the Borrower establishes to the satisfaction of the Association that: (i) 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 (ii) 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 (a) (ii) 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; and

(b) the events specified in paragraphs (a) (iv), (a) (v) and (a) (vi) of Section 5.01 of this Agreement shall occur subject in the case of the event specified in paragraph (a) (vi) of that Section to the proviso of paragraph (b) thereof.

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 Subsidiary Loan Agreement has been executed on behalf of the Borrower and Calub Company;

(b) Calub Company has appointed external auditors acceptable to the Association, under terms of reference satisfactory to the Association;

(c) the Borrower has provided to the Association, evidence satisfactory to the Association of the availability of the financing of Part

B.1 of the Project;

(d) the Borrower has furnished to the Association terms of reference, acceptable to the Association, for the study on the second phase exploitation of the Calub gas deposit to be carried out under Part F.3 of the Project; and

(e) the operation and management contract referred to in Section 3.03 of the Project Agreement has been signed.

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) that the Project Agreement has been duly authorized or ratified by Calub Company, and is legally binding upon Calub Company in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly authorized or ratified by the Borrower and Calub Company and is legally binding upon the Borrower and Calub Company 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

Representatives of the Borrower; Addresses

Section 7.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

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

For the Borrower:

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

| | |
|-----------------------|--------|
| Cable address: | Telex: |
| MINFIN Addis Ababa | 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. | 197688 (TRT), 248423 (RCA), 64145 (WUI) or 82987 (FTCC) |

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.

ETHIOPIA

By /s/ Berhane Gebre-Christos
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V. K. Jaycox
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 under Part A of the Project | 470,000 | 90% |
| (2) Equipment, materials and vehicles: | | 100% of foreign expenditures |
| (a) Calub Company | 30,450,000 | |
| (b) ERA | 1,800,000 | |
| (c) Region Five | 75,000 | |
| (d) MME | 220,000 | |
| (3) Well Completion under Part A.1 of the Project | 4,340,000 | 100% of foreign expenditures |
| (4) Consultants' Services and Training: | | 100% |
| (a) Calub Company | 6,050,000 | |
| (b) ERA | 1,450,000 | |
| (c) Region Five | 550,000 | |
| (d) MME | 1,700,000 | |
| (5) Refunding of Project Prepara- tion Advance | 895,000 | Amount due pur- suant to Section 2.02 (c) of this Agreement |
| (6) Unallocated | 5,700,000 | |

TOTAL 53,700,000
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2. For the purposes of this Schedule, 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.

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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (i) improve the structure of energy supply by increasing the availability of modern fuels, (ii) support economic growth by expanding petroleum supply from indigenous resources, (iii) contribute to the mitigation of peri-urban deforestation by inducing the replacement of woodfuels by LPG and kerosene in the urban households, (iv) develop the Borrower's technical capacity to commercialize its fossil fuel resources, (v) contribute to poverty alleviation, (vi) stimulate and facilitate private sector participation in the energy sector, and (vii) enhance MME's ability to promote petroleum exploration and development.

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: Development of Calub Field

1. Completion of the existing nine wells on the Calub gas field, including installation and testing of production and injection equipment.
2. Construction of a processing plant and ancillary facilities.
3. Training and technical assistance to Calub Company to attract private equity investment, and to supervise plant construction and operations.
4. Construction of the Calub-Shilabo link road.

Part B: Regional Development of the Southeastern Region

1. Rehabilitation of the Shilabo-Harar road and equipment for two flying crews for the maintenance of critical road segments.
2. Setting up an environmental monitoring system, and its operation by a team comprising primarily social scientists and rangeland ecologists, to: (a) provide base-line information on the living conditions of the local population and on the state of the natural resource base, (b) facilitate project implementation by documenting social and environmental changes caused by the Project, anticipating problems caused by such changes, and identifying appropriate solutions, and (c) support the operation of the Community Development Fund to address general environmental, social and economic concerns of the communities in the Project area.
3. Assistance for the establishment and operation of a Community Development Fund to finance and support locally identified and community based and managed micro-projects, including: (a) small infrastructure projects such as rehabilitation or construction of wells, schools, and health clinics, (b) social projects for the provision of essential social services such as community health and nutritional programs, and training in adult literacy, and (c) income generating projects, including the provision of credit and/or small grants for small-scale enterprises.

Part C: Assistance to MME

1. Technical assistance for the establishment of the Calub Company and its promotion to private investors.
2. Support for the establishment and operation of the Project Implementation Task Force within the MME.

3. Strengthening of MME's capacity to promote private sector participation in petroleum exploration and development, including assistance to update and market the existing petroleum data base, and training in seismic data interpretation and exploration promotion.

Part D: Support for LPG Marketing and Interfuel Substitution

Technical assistance to EEA to: (a) implement LPG public awareness campaigns, (b) establish national LPG standards, and (c) study and promote technology adaption for local production of LPG stoves.

Part E: Fuelwood Carriers Credit Scheme (FCCS)

Establishment and operation of the FCCS to provide collateral-free soft loans and training to women fuelwood carriers organized in small community groups.

Part F: Studies

1. Study of petroleum pricing and market structure, to assist the Borrower in formulating pricing policies for petroleum products and defining cost-effective procurement and distribution policies.
2. Study of the electrification of selected urban centers around Calub, to evaluate the potential of supplying electricity from Calub to the district of Gode and other urban centers.
3. Study of the second phase exploitation of Calub deposit to analyze: (i) the market potential and the technical feasibility and economic viability of a large scale exploitation of Calub's gas resources, and (ii) the policy and regulatory framework for gas commercialization.

* * *

The Project is expected to be completed by June 30, 2000.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1992 (the Guidelines).

(a) For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency component of the bid price. Such an increase shall not be taken into account in the bid evaluation.

(b) In the procurement of goods and works in accordance with this Part A, the Borrower shall use the relevant standard bidding documents issued by the Bank, with such modifications thereto as the Association shall have agreed to be necessary for the purposes of the Project. Where no relevant standard bidding documents have been issued by the Bank, the Borrower shall use bidding documents based on other internationally recognized standard forms agreed with the Association.

2. Goods procured under this Part A, shall be exempted from pre-shipment inspection by a third party inspection firm.

3. To the extent practicable, contracts for goods shall be grouped into bid packages estimated to cost the equivalent of \$500,000 or more.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Ethiopia may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Items or groups of items estimated to cost the equivalent of \$200,000 or less per contract, up to an aggregate amount not to exceed the equivalent of \$750,000, may be procured under contracts awarded on the basis of competitive bidding advertised locally, in accordance with procedures acceptable to the Association.

2. Items or groups of items estimated to cost the equivalent of \$30,000 or less per contract, up to an aggregate amount equivalent of \$400,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three sources eligible under the Guidelines, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract for works and goods estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to paragraph 2 (d) of said Appendix shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of a Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

3. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out of the Project, the Borrower shall employ consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines).

2. For complex, time-based assignments, the Borrower shall employ such consultants under contracts using the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, the Borrower shall use other standard forms agreed with the Association.

3. Notwithstanding the provisions of paragraph 1 of this Section the provision of the Consultants Guidelines requiring prior review or approval

by the Association of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to such prior review or approval requirements shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single-source hiring of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 4

Implementation Program

1. The Project Implementation Task Force (PITF) established within MME will be responsible for Project coordination, monitoring and reporting. Under the overall supervision of PITF: (a) Calub Company will implement Part A of the Project; (b) ERA will be responsible for the implementation of Part B.1 of the Project; (c) the Steering Committee established by the Borrower will be in charge of the implementation of Parts B.2 and B.3 of the Project; (d) MME will be responsible for the implementation of Parts C.3 and D of the Project; and (e) WACD will implement Part E of the Project. PITF will implement directly Part F of the Project.

2. Calub Company, MME, the Steering Committee, WACD and ERA will furnish to PITF quarterly reports on the implementation of their respective Parts of the Project.

3. The environmental monitoring system under Part B.2 of the Project will be managed by a small monitoring unit to be established under the Steering Committee.

4. The Calub Community Development Fund will be managed by a Coordinating Unit (CU) which will directly report to the Steering Committee. CU will have the following responsibilities: (i) preparation of a detailed operational manual which will describe, inter alia, the types of eligible projects, the criteria to be used for assessing applications, the different stages of project assessment and monitoring, the disbursement and procurement procedures, (ii) promotion and advertising of the Fund, (iii) assessment and appraisal of projects, (iv) disbursement of funds for the implementation of Projects, and (v) monitoring of the community development projects Implementation. For projects involving a large number of beneficiaries and/or funds in excess of \$500 equivalent, local project committees will be established to oversee the implementation of the projects and the proper use of funds.

5. The performance indicators for monitoring project implementation are as follows:

A. Calub Company

1. (a) The key performance indicators include: (i) percentage private equity and contribution to the performance of Calub Company; (ii) plant construction costs and timeliness; (iii) ability of the firm or firms to be appointed under Section 3.03 of the Project Agreement to meet performance obligations of the contract referred to in said Section; and (iv) after plant start up, capacity utilization, sales volume, and financial performance as required under Sections 4.02 and 4.03 of the Project Agreement.

(b) The following should be the implementation status at the time of the midterm review referred to in Section 3.07 of this Agreement: (i) well completion work should be underway under the supervision of the consultant employed for phase II of the Project activities described in Section 3.03 of the Project Agreement; (ii) plant detailed design (by the turnkey contractor) should have been completed, long lead items ordered, and general mobilization underway; and (iii) construction of the Calub-Shilabo link road should be underway.

B. Road Rehabilitation.

Key performance indicators include:

- (i) ability of flying crews to maintain the Shilabo-Harar road during rehabilitation;
- (ii) rehabilitation costs and timeliness; and
- (iii) re-graveling and routine road maintenance after rehabilitation should conform to the schedule in consultant study agreed with the Association. The following should be the implementation status at the time of the midterm review: (aa) equipment for initial road maintenance ordered and the establishment of maintenance units underway; and (bb) mobilization of road rehabilitation contractors underway.

C. Environmental Monitoring System.

Key performance indicators center around monitoring natural resources and socio-economic patterns as agreed with the Association. The following should be the implementation status at the time of the midterm review: (i) design and terms of reference of the socio-economic and natural resource monitoring system finalized; (ii) training of data collectors completed; and (iii) initial baseline data collection completed.

D. Community Development Fund.

Key performance indicators center around the type and number of micro-projects funded and their sustainability, as defined in the operational manual which shall be satisfactory to the Association. The following should be the implementation status at the time of the midterm review: (i) operational manual prepared; (ii) field officers in place after having been trained; and (iii) micro-project identification underway.

E. Technical Assistance to MME.

Performance of this component will be indicated by: (i) for the PITF, the quality, frequency and regularity in reporting, and performance of its implementing, monitoring and coordinating functions; and (ii) for the MME, by the interest generated in oil and gas exploration in Ethiopia and the number of exploration contracts signed. The following should be the implementation status at the time of the MTR: (aa) PITF should have submitted at least ten aggregated quarterly project reports by December 1996; and (bb) exploration promotion work schedule and staffing requirements finalized.

F. LPG Market Support.

Performance of this component will be measured by the cost-effectiveness of locally manufactured LPG stoves, safety record of LPG use, and the speed at which the market is able to consume Calub LPG production. The following should be the implementation status at the time of the MTR: (i) LPG stove development program finalized and work underway; and (ii) national LPG standards established. Prospects for the import or local manufacture of LPG stoves, cylinders and related infrastructure would also be assessed.

G. Studies.

Timely and appropriate recommendations and their implementation will be performance indicators of the studies. The following should be the implementation status at the time of the midterm review: (i) Petroleum Pricing and Market Structure Study recommendations (as agreed by the Borrower and the Association) should have been implemented and incorporated into Government sectoral policy; and (ii) recommendations of the Regional Electrification Study ready for review.

H. Fuelwood Carriers Credit Scheme.

Key performance indicators are reflected in the component description agreed with the Association. The Project unit should be in place and the selection of the initial target groups completed by the time of the midterm review.

I. Policy Reforms.

Key performance indicators are: (i) increased private investment in the petroleum exploration, production and processing, transportation and distribution; (ii) reduced transaction costs for petroleum procurement and distribution (reflected in retail prices); and (iii) a reduction in unsatisfied demand for petroleum products. The midterm review should: (i) review the impact of freight tariff liberalization on investment in trucks and tankers; (ii) the impact of on-going LPG pricing policy reform on downstream investment; and (iii) the impact of general economic policies on industrial growth should be incorporated into the TORs of the Second Phase Calub Gas Exploitation Study.

SCHEDULE 5

Special Accounts

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means with respect to: (i) Special Account A, Categories (2) (b), (2) (c), (2) (d), (4) (b), (4) (c) and (4) (d) set forth in the table in paragraph 1 of Schedule 1 to this Agreement, and (ii) Special Account B, Categories (1), (2) (a), (3) and (4) (a) set forth in the table in paragraph 1 of said Schedule 1;

(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: (i) with respect to Special Account A, an amount equivalent to \$500,000 to be withdrawn from the Credit Account and deposited into the Special Account A, and (ii) with respect to Special Account B, an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account B, pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of a 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 a 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 a deposit or deposits 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 a 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 a 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 a 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; or

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, less the amount of any outstanding special commitment 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 a 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.

