Development Credit Agreement

(Second Roads Sector Development Support Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 10, 2005
AGREEMENT, dated March 10, 2005, between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Association has received a letter from the Borrower, dated June 25, 2004, describing a program designed to improve reliability of access to road transport infrastructure in the territory of the Borrower with a view to remove constraints to economic growth, thus contributing to poverty alleviation through improvements in rural and urban connectivity, market integration, accessibility to basic social services, and trade facilitation (the Program);

(B) the Borrower has requested that the Association support the Borrower’s execution of the Program through a series of credits or grants over a period of approximately ten (10) years to be utilized by the Borrower in the implementation of the Program;

(C) 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;

(D) the Project will be carried out by the Ethiopian Roads Authority (ERA) with the Borrower’s assistance, and as part of such assistance, the Borrower will make the proceeds of the credit provided for in Article II of this Agreement (the Credit) available to ERA, as set forth 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 the agreement of even date herewith between the Association and the Ethiopian Roads Authority;

NOW THEREFORE the parties hereto hereby agree as follows:
ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004) (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) “CPCB” means the Central Program Coordinating Board of the Borrower’s ERTTP (as hereinafter defined), as referred to in Section 3.06 (a) of this Agreement;

(b) “Eligible Categories” means Categories (1), (2) and (3) set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(c) “Eligible Expenditures” means the expenditures for goods, works and consultants’ services referred to in Section 2.02 of this Agreement;

(d) “EMP” means the environmental management plan for the Project, adopted by the Borrower and ERA on February 12, 2003;

(e) “ERA” means the Ethiopian Roads Authority, an entity established and operating pursuant to Proclamation No. 80/1997 of the Borrower dated June 5, 1997, as amended to date, and which is responsible for the construction, administration and maintenance of the federal roads in the territory of the Borrower;

(f) “ERTTP” means Ethiopian Rural Travel and Transport Program, a specific program of the Borrower designed to address the travel and transport needs of rural communities with inadequate access and mobility;

(g) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(h) “Fiscal Year” and “FY” mean the Borrower's fiscal year beginning July 8 and ending July 7 of the next calendar year;
(i) “Highway Design and Management Model-4” means the computer software used for roads network economic analysis and planning;

(j) “HIV/AIDS” and “STD” mean respectively Human Immuno-Deficiency Virus/Acquired Immune Deficiency Syndrome and Sexually Transmitted Diseases;

(k) “MARD” means the Borrower’s Ministry of Agriculture and Rural Development;

(l) “MIS” means Management Information System;

(m) “MOFED” means the Borrower’s Ministry of Finance and Economic Development;

(n) “MOI” means the Borrower’s Ministry of Infrastructure;

(o) “NBE” means the National Bank of Ethiopia, the Borrower’s central bank;

(p) “Procurement Plan” means the Borrower’s procurement plan, dated June 17, 2004 covering the initial 24 month period (or longer) of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 24 month periods (or longer) of Project implementation;

(q) “Project Agreement” means the agreement between the Association and The Ethiopian Roads Authority, 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;

(r) “Project Implementation Plan” means the plan referred to in Section 6.01 (c) of this Agreement consisting of different modules setting forth respectively, *inter alia*, the administrative, financial, accounting and auditing procedures; the procurement and disbursement procedures; the environmental procedures manual; the detailed performance indicators to be used for the Project, and other activities and arrangements to be used for the purpose of implementing the Project, as the same may be amended from time to time, and such term includes any schedules to the Project Implementation Plan;

(s) “RAPs” means the Resettlement Action Plans prepared by the Borrower on the basis of the RPF furnished to the Association;
(t) “Region, Zone, Woreda, and Kebele” mean either a specific administrative area within the Borrower’s territory as defined in the Borrower’s Constitution, or different local government levels within the Borrower’s territory established and operating pursuant to the relevant Regional Constitutions;

(u) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.4 of Schedule 1 to this Agreement;

(v) “RF” means the Borrower’s Road Fund, established and operating pursuant to Proclamation No. 66/1997, dated March 6, 1997, for providing the resources needed for road maintenance in the territory of the Borrower;

(w) “RFA” means Road Fund Administration, the office of the Road Fund, responsible for the operations of the Road Fund and subject to the authority of the Road Fund Board consisting of federal and regional representatives of the Borrower, ERA and local stakeholders as provided for under the provisions of the Proclamation No. 66/1997;

(x) “RPCB” means the Regional Program Coordinating Board of the Borrower’s ERTTP, as referred to in Section 3.06 (b) of this Agreement;

(y) “RPF” means the Resettlement Policy Framework adopted by the Borrower for: (i) compensating persons involuntarily displaced in the territory of the Borrower on account of Project implementation; and (ii) mitigating adverse social impacts resulting from the resettlement of such displaced persons;


(aa) “Special Account” means the account referred to in Part B of Schedule 1 to this Agreement;

(bb) “Subsidiary Agreement” means the agreement to be entered into between the Borrower and ERA pursuant to Section 3.01 (b) of this Agreement, as the same may
be amended from time to time, and such term includes all schedules to the Subsidiary Agreement;

(cc) “Village Development Committee” means a committee established at community level, and referred to in Section 3.06(a)(iii) of this Agreement; and

(dd) “Woreda Development Committee” means a committee established at Woreda level, and referred to in Section 3.06(a)(ii) of this 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 and ten million Special Drawing Rights (SDR 110,000,000).

Section 2.02. 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 and to be financed out of the proceeds of the Credit.

Section 2.03. The Closing Date shall be June 30, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.
(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on May 15 and November 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each May 15 and November 15, commencing November 15, 2014 and ending May 15, 2044. Each installment to and including the installment payable on May 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower’s per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association’s resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower’s economy, modify the repayment of installments under paragraph (a) above by:

(A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and

(B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.
(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower’s economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, without any limitation or restriction upon any of its other obligations under the Development Credit Agreement, shall cause ERA to perform in accordance with the provisions of the Project Agreement all the obligations of ERA therein set forth, shall take and cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable ERA to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall make the proceeds of the Credit available to ERA under a Subsidiary Agreement to be entered into between the Borrower and ERA, under terms and conditions which shall have been approved by the Association.

(c) The Borrower shall exercise its rights under the Subsidiary 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 Agreement or any provision thereof.

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and consultants’ services required for the Project and to be financed
out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan;

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

Section 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) shall be carried out by ERA pursuant to Section 2.03 of the Project Agreement.

Section 3.04. Except as the Association shall otherwise agree, the Borrower shall: (a) for each of its fiscal years until completion of the Project, make adequate funding available for purposes of funding road maintenance activities under the Program; and (b) ensure that resources of the Road Fund are used to fully finance road maintenance and preservation activities.

Section 3.05. The Borrower shall take part in the annual and midterm reviews referred to in paragraphs 1 and 2 of Schedule 2 to the Project Agreement, and thereafter, take all action necessary on its part to assist ERA in taking any corrective action deemed necessary to remedy any shortcoming identified in the implementation of the Project, or assist ERA in implementing, such measures as may have been agreed upon between the parties in furtherance of the objective of the Project.

Section 3.06. (a) Except as the Association shall otherwise agree, the Borrower shall maintain at all times during Project implementation:

(i) CPCB, responsible for policy formulation, regulation, awareness development and technical guidance and support in respect of the ERTTP Program, chaired by MARD and with secretariat functions carried out by ERA;

(ii) RPCBs responsible for providing support to the Woreda Development Committees, with secretariat functions carried out by RRAs; and

(iii) Woreda Development Committees responsible for coordinating activities of Village Development Committees under the ERTTP initiatives.
(b) RRAs, responsible for managing and administering the Borrower’s Regional Roads Program.

ARTICLE IV

Financial Covenants

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

(b) Upon the Association’s request, the Borrower shall cause ERA to:

(i) have the financial statements referred to in paragraph (a) of this Section for each fiscal year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;

(ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association): (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and

(iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of reports referred to in Part A.4 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:
(i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(ii) enable the Association’s representatives to examine such records; and

(iii) ensure that such reports and statements of expenditure are included in the audit for each fiscal year (or other period agreed to by the Association), referred to in paragraph (b) of this Section.

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

(i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;

(ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and

(iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

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

Remedies of the Association

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

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

(b) 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 ERA will be able to perform its obligations under the Project Agreement.

(c) Proclamation No.80/1997 of the Borrower shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ERA to perform any of its obligations under the Project Agreement.

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

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

(a) any event specified in paragraphs (a) through (c) of Section 5.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower; and

(b) the event specified in paragraph (d) of Section 5.01 of this Agreement shall occur.

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 Agreement has been executed on behalf of the Borrower and ERA, in form and substance satisfactory to the Association, and has become effective;

(b) ERA has opened the Project Account pursuant to Section 2.06 (a) of the Project Agreement and has deposited therein the initial deposit referred to in that Section; and

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

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 ERA, and is legally binding upon ERA in accordance with its terms; and

(b) that the Subsidiary Agreement has been duly authorized by the Borrower and ERA and is legally binding upon the Borrower and ERA 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.

Section 6.04. The obligations of the Borrower under Sections of this Agreement and the provisions of paragraphs (a), (b) and (c) of Section 4.02 of this Agreement shall cease and terminate on the date on which the Development Credit Agreement shall terminate or on the date 20 years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of the Borrower 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 and Economic Development
Ministry of Finance and Economic Development
PO Box 1905
Addis Ababa
Federal Democratic Republic of Ethiopia

Telex: 2114 251-1551355
2115

For the Association:

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

Cable address: INDEVAS
Telex: 248423 (MCI) or (202) 477-6391
Facsimile: 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

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative
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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Credit Allocated (Expressed in SDR Equivalent)</th>
<th>% of Expenditures to be Financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Works</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a) under parts A(1) and B of the Project</td>
<td>75,850,000</td>
<td>100% of foreign expenditures.</td>
</tr>
<tr>
<td>(b) under Part A(2) of the Project</td>
<td>7,530,000</td>
<td>63% of local expenditures.</td>
</tr>
<tr>
<td>(2) Goods</td>
<td>260,000</td>
<td>100% of foreign expenditures and 30% of local expenditures.</td>
</tr>
<tr>
<td>(3) Consultants’ services, training and workshops</td>
<td>8,830,000</td>
<td>100% of foreign expenditures and 30% of local expenditures.</td>
</tr>
<tr>
<td>(4) Unallocated</td>
<td>17,530,000</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>110,000,000</td>
<td></td>
</tr>
</tbody>
</table>
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.

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 and the Borrower may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than $100,000 equivalent per contract; (b) works costing less than $500,000 equivalent per contract; (c) for services of individual consultants costing less than $50,000 equivalent per contract; and (d) for services of consulting firms under contracts costing less than $100,000 equivalent per contract, and (e) training and workshops, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. The Borrower may request withdrawals from the Credit Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Account

1. The Borrower may open and maintain in Dollars a special deposit account in NBE.

2. After the Association has received evidence satisfactory to it that the Special Account has been opened, withdrawals from the Credit Account of amounts to be deposited into the Special Account shall be made as follows:

   (a) if the Borrower is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and
(b) if the Borrower is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for Eligible Expenditures.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.4 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Borrower directly from the Credit Account; or

(c) 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: (i) the records and accounts for the Special Account; or (ii) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Borrower and the Guarantor of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Borrower and the Guarantor of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or 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. 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 determines at any time that any amount outstanding in the Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Credit Agreement.
Annex A

to

SCHEDULE 1

Operation of Special Account
When Withdrawals Are Not
Report-based Disbursements

1. For the purposes of this Annex, the term “Authorized Allocation” means the amount of $16,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 2 of this Annex, provided, however, that unless the Association otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to $8,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 20,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

   (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. 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.

   (b) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposit into the Special Account at such intervals as the Association shall specify. 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 Part B.3 of Schedule 1 to this Agreement 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. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.
3. The Association shall not be required to make further deposits into the Special Account, once the total unwithdrawn amount of the Credit minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions 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 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.
Annex B
to
SCHEDULE 1

Operation of Special Account
When Withdrawals Are
Report-based Disbursements

1. Withdrawals from the Credit Account shall be deposited by the Association into the Special Account in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Account shall be withdrawn by the Association from the Credit Account under one or more of the Eligible Categories.

2. Upon receipt of each application for withdrawal of an amount of the Credit, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.4 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.
SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in increasing its road transport infrastructure and improving the reliability thereof, strengthening the capacity for road construction, management and maintenance and enhancing the financing program in relation thereto in order to ensure sustainability, and creating conditions conducive to private sector participation in the road transport 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 objectives:

Part A: Upgrading of Federal Trunk and Link Roads

1. Upgrading of about:

   (a) 316 kilometers of the Assela-Dodola and Shashemene-Goba trunk road in the Borrower’s Oromiya Region from gravel road to bitumen surface standard;

   (b) 194 kilometers of the Gob-Gob-Gashena-Woldiya link road in the Borrower’s Amhara Region from a gravel road to bitumin surface standard; and

   (c) 83 kilometers of the Adwa-Shire link road in the Borrower’s Tigray Region from a gravel road to bitumen surface standard.

2. Strengthening the capacity of the Borrower’s domestic construction industry through the participation of said industry in the upgrading of about 70 kilometers of the Shashemene-Dodola junction section of the Assela-Dodola and Shashemene-Goba trunk road referred to in paragraph 1 (a) of this Part A.

3. Provision of technical advisory services in relation to the monitoring and supervision of the civil works to be carried out under this Part A, including the implementation of environmental and social mitigation measures prepared for this Part of the Project.
Part B: Construction of Federal, Link and Regional Rural Roads

1. Construction of about:
   
   (a) 119 kilometers of the Magna-Mechara federal link road in the Borrower’s Oromiya Region to a gravel surface standard; and

   (b) 137 kilometers of the Assossa/Sherkole-Guba regional rural road in the Borrower’s Benishangul-Gumuz Region to a gravel surface standard.

2. Provision of technical advisory services in relation to the monitoring and supervision of the civil works to be carried out under this Part B, including the implementation of environmental and social mitigation measures prepared for this part of the Project.

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

Supporting the Borrower’s overall strategy for poverty alleviation by improving populations’ access to economic markets, and basic social services through the provision of technical advisory services for the preparation, under the Borrower’s Woreda integrated development plan framework, of:

   (a) about 40 Woreda travel and transport plans for, inter alia, improving community roads network, developing intermediate means of transport, constructing small scale community infrastructure facilities, including water wells to reduce travel and time burden of the communities, developing institutional and financing frameworks for sustainable delivery of social services, and providing relevant capacity building and training in relation thereto, including the revision of guidelines for preparing such Woreda plans; and

   (b) the strengthening of ERA’s institutional capacity to implement the ERTTP and to assume secretariat functions of CPCB.

Part D: Institutional Strengthening of ERA

Strengthening ERA’s capacity for implementing the Project and the Borrower’s Program through the provision of technical advisory services and the acquisition of relevant equipment for:

   (a) updating ERA’s Pavement Management System and aligning it with the Highway Design and Management Model-4;
refining ERA’s financial management system and interface with MIS in the context of the commercialization of its operational functions; and

(c) organizing training programs and technology transfer for ERA’s staff with respect to the activities carried out under paragraphs (a) and (b) of this Part D.

Part E: Supporting the Accomplishment of Program’s Objectives

Ensuring sustainability in the implementation of the Project’s and the Borrower’s Program’s objectives through the provision of technical advisory services for the carrying out of: (a) feasibility studies for the preparation of activities to be carried out under subsequent phases of the Program; (b) environmental and social impact assessments and related RPF, RAPs and studies; and (c) designs of future road projects and review capacity and mechanisms in respect thereof.

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The Project is expected to be completed by December 31, 2009.