

CONFORMED COPY

**CREDIT NUMBER 4027 ET
GRANT NUMBER H141 ET**

Development Financing Agreement

(Private Sector Development Capacity Building Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 10, 2005

CREDIT NUMBER 4027 ET
GRANT NUMBER H141 ET

DEVELOPMENT FINANCING AGREEMENT

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 December, 17, 2003, describing a program of policy reforms and actions designed to generate increased growth and stimulate the competitiveness of its private sector with a view to support economic growth and foster poverty reduction in its territory (the Program) and declaring the Borrower's commitment to the execution of such program;

(B) 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;

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit are made; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit and the Grant to the Borrower upon the terms and conditions set forth in this Agreement

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 6 to this Agreement (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) “Eligible Categories” means: (i) Categories (1) through (6) in respect of Special Account (A); and (ii) Category (3) in respect of Special Account (B), set forth in the table in Part A.1 of Schedule 1 to this Agreement;

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

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

(d) “Procurement Plan” means the Borrower’s procurement plan, dated November 19, 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;

(e) “Report-based Disbursements” means the Borrower’s option for withdrawal of funds from the Credit Account referred to in Part A.5 of Schedule 1 to this Agreement;

(f) “Special Accounts” means the accounts referred to in Part B of Schedule 1 to this Agreement;

(g) “PPESA” means the Privatization and Public Enterprise Supervisory Authority, an entity established and operating pursuant to Proclamation No. 87/1994 of the Borrower, (as amended to date);

(h) “Enterprise Ethiopia” and “EE” mean a Project office of MOTI, dedicated to upgrading business skills in the territory of the Borrower, as further described in Schedule (4) to this Agreement;

(i) “BIZCAP Management Unit” and “BMU” mean a unit under Enterprise Ethiopia, responsible under the Project for appraising eligibility of FC Subprojects, AC Subprojects and BP Subprojects to receive Grants out of the proceeds of the Financing;

(j) “Birr” means the currency of the Borrower;

- (k) “NBE” means national bank of Ethiopia, the Borrower’s central bank;
- (l) “FBE” means the Faculty of Business and Economics of the Addis-Ababa University in the capital city of the Borrower;
- (m) “Fiscal Year” and “FY” mean the Borrower's fiscal year beginning July 8 and ending July 7 of the next calendar year;
- (n) “Project Account” means the account referred to in Section 3.04 of this Agreement;
- (o) “Project Coordination Unit” and “PCU” mean the unit established under the administrative authority of the PP Steering Committee for the coordination of activities to be carried out under the Project, as further referred to in Schedule (4) to this Agreement;
- (p) “Project Operational Manual” means the manual referred to in Section 6.01 (c) of this Agreement consisting of different modules and schedules, among which the project implementation plan, the Bizcap operations manual, the manual of administrative, financial and accounting procedures and the statement of policies and operating procedures, setting out respectively, *inter alia*: (i) detailed Project description activities and institutional and implementation arrangements in respect thereof; (ii) the administrative, financial and accounting procedures; the procurement and disbursement procedures; (iii) eligibility criteria for Grant Beneficiaries and eligible Subprojects, including, whenever applicable, the environmental, the resettlement and the cultural property arrangements in respect thereof as set forth in the ESMP prepared for the Project; (iv) the terms and conditions for related Grant agreements, including procurement and accounting procedures in relation thereto; and (v) detailed performance indicators to be used for the Project, and other activities and arrangements to be used for the purpose of implementing the Project, to be adopted by the Borrower not later than the Effective Date, as the same may be amended from time to time;
- (q) “Competition Secretariat” means the Secretariat of the Competition Commission;
- (r) “The Competition Commission” means an entity established and operating pursuant to Proclamation No 329/2003 of the Borrower;
- (s) “EMP” means Environmental Management Plan;

(t) “Subproject” means any and all the FIRMCAP Subprojects, the ASCAP Subprojects and the BIZPLAN Subprojects under Part C (1) (a) of the Project;

(u) “Matching Grant” means any and all the FC Grants, the AP grants, and the BP Grants under Part C (1) (a) of the Project;

(v) “Proclamation, Regulation, Directive” means laws of the Borrower enacted by the federal or regional parliaments, or the executive branch of the Borrower’s Government, pursuant to the Borrower’s Constitution;

(w) “MoTI” means the Borrower’s Ministry of Trade and Industry;

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

(y) “MIS” means the Monitoring and Information System for the Project;

(z) “Letter of Undertaking” means the subsidiary agreement referred to in Section 6.01 (f) of this Agreement to be entered into between MoFED and MoTI in order to entrust responsibility of the implementation of the Project to MOTI, including financial responsibility in respect thereof;

(aa) “FIRMCAP Subproject” and “FC” mean a program of specific capacity building activities in business skills enhancement to be carried out by a Beneficiary utilizing the proceeds of an FC Grant made under Part C (1) (a) (i) of the Project;

(bb) “ASCAP Subproject” and “AC Subproject” mean a program of specific capacity building activities in advocacy, membership penetration and business development support services to be carried out Beneficiaries utilizing the proceeds of an AC Grant made under Part C (1) (a) (ii);

(cc) “BIZPLAN Subproject” and “BP Subproject” mean specific competition-oriented activities for the development of entrepreneurial skills of aspiring entrepreneurs to be carried out utilizing the proceeds of a BP Grant made under Part C(1) (a) (iii) of the Project;

(dd) “Beneficiary” means: (i) in the case of an FC Grant: an individual firm or an institution; (ii) in the case of an AC Grant: a representative organization, a professional association or a commerce, trade or industry chamber; and (iii) in the case of a BP Grant: any individual or firm of the SME sector qualified for receiving such Grant in accordance with the POM;

(ee) “FC Grant” means a grant made or proposed to be made to a Beneficiary under Part C (1) (a) (i) of the Project;

(ff) “AC Grant” means a grant made or proposed to be made to a Beneficiary under Part C (1) (a) (ii) of the Project;

(gg) “BP Grant” means a grant made or proposed to be made to a Beneficiary under Part C (1) (a)(iii) of the Project;

(hh) “FC Grant Agreement” means the Agreement to be entered into between the CB Subcommittee and a Beneficiary, for the purpose of financing a FC Subproject under Part C (1)(a)(i) of the Project;

(ii) “SME” means Small and Medium size Enterprise;

(jj) “AC Grant Agreement” means the Agreement to be entered into between the CB Subcommittee and a Beneficiary, for the purpose of financing an AC Subproject under Part C(1)(a)(ii) of the Project;

(kk) “BP Grant Agreement” means the Agreement to be entered into between the CB Subcommittee and a Beneficiary, for the purpose of financing a BP Subproject under Part C(1)(a)(iii) of the Project;

(ll) “Public-Private Steering Committee” and “PP Steering Committee” mean the public/private committee referred to in Schedule (4) to this Agreement; established by the Borrower for overseeing the implementation of Project activities;

(mm) “Capacity Building CB Subcommittee” and “CB Subcommittee” mean a unit of the PP Steering Committee responsible for approving the Subprojects as further referred to in paragraph (h) of Schedule (4) to this Agreement;

(nn) “MOU” means a memorandum of understanding to be entered into between MOTI and an executing Agency for the purpose of carrying out the activities described under Schedule 2 to this Agreement;

(oo) “Executing Agency” means, depending on the context, either PPESA, the Secretariat of the Competition Commission, Enterprise Ethiopia or the World Trade Organization Department of MOTI; and

(pp) “Matching Grant International Expert” means an expert in the management of matching grant schemes competitively selected by the Borrower for advising on the implementation of FC, AC, and BP Subprojects determined to be eligible to receive financing under the Project.

Article II

The Financing

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to twelve million seven hundred thousand Special Drawing Rights (SDR 12,700,000) (the Credit); and

(b) an amount in various currencies equivalent to three million four hundred thousand Special Drawing Rights (SDR 3,400,000) (the Grant).

Section 2.02. The amount of the Credit may be withdrawn from the Credit Account and the amount of the Grant may be withdrawn from the Grant Account, in accordance with the provisions of Schedule 1 to this Agreement, for: (a) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit; and (b) amounts paid (or, if the Association shall so agree, to be paid) by PCU on account of withdrawals made for the benefit of a Beneficiary under a FC Grant Agreement, an AC Grant Agreement and a BP Grant Agreement respectively, to meet the reasonable cost of goods and services required for the carrying out of an FC Subproject, an AC Subproject and a BP Subproject, to be financed under Part C (1)(a)(i), Part C(1)(a)(ii) and Part C(1)(a)(iii) respectively of the Project, and to be financed out of the proceeds of the Financing.

Section 2.03. The Closing Date shall be June 30, 2011, 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: (i) 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, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) Each 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 the Grant Account (as the case may be), or canceled; and (ii) at the respective 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 respective 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) Each 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, 2015 and ending November 15, 2044. Each installment to and including the installment payable on November 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 of the Credit to conform to the schedule of installments as provided in paragraph (a) above.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through PCU 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.

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

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods and 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 as said provisions may be further elaborated in the Procurement Plan.

(b) The Borrower shall update the Procurement Plan in accordance with guidelines 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. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

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

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

Section 3.04. (a) The Borrower shall open and maintain, for the duration of the Project, an account (the Project Account) in *Birr* in NBE on terms and conditions satisfactory to the Association;

(b) promptly thereafter, make an initial deposit into the Project Account, of an amount equivalent to *Birr* 500,000 to finance the Borrower's contribution to the Project for the first Fiscal Year during which Project Effectiveness occurs;

(c) thereafter, deposit into the Project Account by July 15 and January 15 in each Fiscal Year such amounts as shall be required to ensure the Borrower's contribution to the carrying out of PCU planned activities for that FY; and

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

ARTICLE IV

Financial Covenants

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

(b) The Borrower shall:

- (i) commencing with the fiscal year in which the Effective Date falls, to and including the fiscal year in which the last withdrawal from the Credit Account and the Grant Account is made, 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 such 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 and the Grant Account were made on the basis of reports referred to in Part (6) 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 and Grant 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 expenditures 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 paragraph (9) of Schedule 4, to this Agreement the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing, 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 Financial Monitoring Report 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 Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

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

ARTICLE VI

Effective Date; Termination

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

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

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

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

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

(e) the Borrower has established PCU and: (i) appointed a Project Coordinator employed in accordance with the provisions of Section II of Schedule 3 to this Agreement; and (ii) assigned to PCU specialists in financial management and procurement, all having experience and qualifications satisfactory to the Association; and

(f) MoFED and MoTI have entered into a Letter of Undertaking for the purpose of Project implementation, in form and substance satisfactory to the Association, and such Letter of Undertaking has become effective.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01 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 and Economic Development
Ministry of Finance and Economic Development
PO Box 1905
Addis Ababa
Federal Democratic Republic of Ethiopia

Telex:	Facsimile:
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:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Addis Ababa, Federal Democratic Republic of Ethiopia 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/ Ishac Diwan
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

A. General

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

<u>Category</u>	Amount of the Credit Allocated (Expressed in <u>SDR Equivalent</u>)	Amount of the Grant Allocated (Expressed in <u>USD Equivalent</u>)	% of Expenditures to be Financed
(1) Goods	320,000		100% of foreign expenditures and 90% of local expenditures
(2) Consultants' services and audits	3,300,000		100% of foreign expenditures and 85% of local expenditures
(3) Severance Payments	1,430,000	3,400,000	100%
(4) Matching Grants	4,730,000		100% of amounts disbursed
(5) Training and workshops	890,000		100%
(6) Operating costs	330,000		90%
(7) Unallocated	1,700,000		
TOTAL	<u>12,700,000</u> =====	<u>3,400,000</u> =====	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower;

(c) the term “severance payments” means payments made by the PPESA to employees of public sector enterprises who have been voluntarily retrenched under Part A(3)(b) of the Project;

(d) the term “consultant services and audits” means payment of consultants recruited under the Project, including professional staff of PCU who are not in the employ of the Borrower’s civil service;

(e) the term “Training and Workshops” means training programs and workshops organized, conducted and carried out in the territory of the Borrower exclusively; and

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

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement

(b) payments under category 3, until and unless the Borrower has furnished to the Association an employee retrenchment program design and disbursement mechanism in respect thereof, satisfactory in form and substance to the Association; and

(c) payments under category 4, until and unless: (i) a Matching Grant International Expert acceptable to the Association has been appointed in accordance with the provisions of section II of Schedule 3 to this Agreement; to advise on the

management of the matching grant scheme; and (ii) an FC Grant Agreement, an AC Grant Agreement and a BP Grant Agreement have been entered into between the CB Subcommittee and the relevant Beneficiaries, all in accordance with the procedures, the terms and conditions referred to in Schedule 4 to this Agreement, as shall be evidenced by the first such Grant Agreement of each kind and the first Grant Agreement to be furnished to the Association for its prior approval;

4 Notwithstanding the provisions of paragraph 1 above, no reallocation of funds shall be made from any of the Categories (1), (2), (4), (5), (6) and (7) towards Category (3).

5. The Association may require withdrawals from the Financing Accounts to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$ 150,000 equivalent per contract; (b) severance payments; (c) services of individual consultants costing less than \$ 50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$ 100,000 equivalent per contract, (e) Matching Grants costing less than \$25,000 per AC Grant Agreement, \$15,000 equivalent per BP Grant Agreement and \$150,000 equivalent per FC Grant Agreement, (f) training and workshops, and (g) operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

6. The Borrower may request withdrawals from the Financing Accounts 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 Financing Accounts, 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 Accounts

1. The Borrower may open and maintain in Dollars two special deposit accounts in a NBE, Special Account (A) and Special Account (B) on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Accounts have been opened, withdrawals from the Financing Accounts of amounts to be deposited into the Special Accounts 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 Accounts shall be made exclusively for Eligible Expenditures. For each payment made by the Borrower out of the Special Accounts, 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 Accounts:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 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 Financing Accounts; 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: (A) the records and accounts for the Special Accounts; or (B) 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 Accounts 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 or the Grant 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 Accounts 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 Accounts 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 Accounts (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 Accounts 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 Accounts 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 Accounts.

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Credit Account or the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Financing Agreement.

Annex A
to
SCHEDULE 1

**Operation of Special Accounts
When Withdrawals Are Not
Report-based Disbursements**

1. (a) For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$ 2,500,000 to be withdrawn from the Credit Account and deposited into Special Account (A) pursuant to paragraph 2 of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$ 1,500,000 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 4,000,000.

(b) For the purposes of this Annex, the term “Authorized Allocation” means the amount of \$ 500,000 to be withdrawn from the Grant Account and deposited into Special Account (B) pursuant to paragraph 2 of this Annex, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$ 250,000 until the aggregate amount of withdrawals from the Grant 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 1,000,000.

2. Withdrawals of the Authorized Allocations and subsequent withdrawals to replenish the Special Accounts 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 Accounts 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 or the Grant Account and deposit into the Special Accounts such amount as the Borrower shall have requested.

(b) For replenishment of the Special Accounts, the Borrower shall furnish to the Association requests for deposit into the Special Accounts 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 or the Grant Account and deposit into the Special Accounts 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 Accounts for Eligible Expenditures. Each such deposit into the Special Accounts shall be withdrawn by the Association from the Credit Account or the Grant Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into the Special Accounts, once the total unwithdrawn amount of the Credit and the Grant 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 and the Grant Account of the remaining unwithdrawn amount of the Credit and the Grant 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 Accounts as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B
to
SCHEDULE 1

Operation of Special Accounts
When Withdrawals Are
Report-based Disbursements

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

2. Upon receipt of each application for withdrawal of an amount of the Credit or the Grant, the Association shall, on behalf of the Borrower, withdraw from the Credit Account or the Grant Account and deposit into the Special Accounts 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.5 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 objective of the Project is to facilitate increased participation of the private sector in the Borrower's economy by creating conditions for improving productivity and competitiveness of said 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: Supporting implementation of the Borrower's privatization program

1. Strengthening the operations of PPESA through:
 - (a) the carrying out of training programs in, *inter alia*, general negotiating skills and contract management; and
 - (b) the enhancement of the MIS for the project.
2. Supporting the deepening and acceleration of Borrower's privatization program through: the provision of technical advisory services for:
 - (a) all stages of the privatization processes of public sector enterprises, including transaction support services; and
 - (b) the preparation of an environmental management plan in accordance with pertinent studies in the matter.
3. Supporting the work force restructuring of public sector enterprises selected for privatization through:
 - (a) the design and preparation of a retrenchment program for workers of said enterprises made redundant on a voluntary basis;
 - (b) the implementation of said retrenchment program and the payment of related severance payments and various benefits, as determined under the program.
4. Developing a sound monitoring and evaluation program of the privatization process through the provision of technical advisory services for the design of a monitoring system for assessing new investors' compliance with privatization covenants.

Part B: Enhancing the business environment of the Borrower and strengthening its integration into the global economy

1. Completing and modernizing the legal and policy framework behind Borrower's new competition policy through:

- (a) the provision of technical advisory services for:
 - (i) the preparation of implementation guidelines of the Trade Practice Proclamation, including the establishment of administrative procedures for the carrying out of administrative actions in respect of evidence gathering, processing and sanctioning of unfair practices;
 - (ii) the institutional building of the Competition Commission through the carrying out of training programs, workshops and communications campaigns including in relation thereto, the acquisition of materials, and the provision of technical advisory services with respect to addressing anticompetitive businesses and practices and their consequences; and
 - (iii) support for the Competition Commission secretariat, including *inter alia* , technical literature on the topic.

2. Increasing participation of the Borrower in the global economy, including through membership in international trade institutions , with a view to open up new opportunities for private investments in additional liberalized sectors, and enhancing exports and trade for the Borrower through:

- (a) the provision of technical advisory services in relation to the negotiations for admission thereto, including with respect to legal framework adaptation and economic policy reforms;
- (b) the carrying out of studies to assess performance of and opportunities existing in service sectors;
- (c) the carrying out of workshops for the private sector, civil society and Borrower's legislators, in order to increase awareness of actions taken and expected results of supporting Borrower's integration into the global economy; and
- (d) the provision of materials and documentation in relation thereto.

Part C: Strengthening the competitiveness of the private sector and the capacity of its representative organizations

Supporting increased international competitiveness of private firms so as to encourage domestic and exports sales through:

- (a) the provision of Matching Grants for the carrying out of eligible:
 - (i) FC Subprojects for skills enhancement of firms based on their business development plans;
 - (ii) AC Subprojects for capacity building of private sector supporting institutions with a view to strengthen chambers, sectoral associations and selected professional associations to achieve increased membership penetration, self-regulation and advocacy; and
 - (iii) BP Subprojects for the discovery, and thereafter, the strengthening of entrepreneurial skills in participants, including through the provision of training for developing participants' business plans, support for the said businesses and provision of technical advisory services.

(b) the provision of institutional support to FBE of Addis-Ababa University, including capacity building of teaching staff, modernized course contents and curriculae, establishment of networking activities with business institutions of foreign countries and the private sector.

* * *

The Project is expected to be completed by December 31, 2010.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding

Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$150,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping

Goods estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting

Goods which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Procurement from UN Agencies

Goods estimated to cost less than \$100,000 equivalent per contract may be procured directly from IAPSO (the Inter-agency Procurement Service Office of the United Nations) in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.

5. Commercial Practices

Items estimated to cost less than \$30,000 equivalent per contract and to be financed under Sub-loans made for Subprojects under Part C (1) (a) (iii) of the Project, may be procured in accordance with commercial practices acceptable to the Association.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection

Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract may comprise entirely national consultants.

B. Other Procedures

1. Quality-based Selection

Services for assignments which the Association agrees meet the requirements set forth in paragraph 3.2 of the Consultant Guidelines may be procured under contracts

awarded on the basis of Quality-based Selection in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Least-cost Selection

Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

3. Single Source Selection

Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Commercial Practices

Services to be financed under Sub-loans made for Subprojects under Part C (1) (a) (iii) of the Project may be procured in accordance with commercial practices acceptable to the Association.

5. Individual Consultants

Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis, subject to prior approval of the Association.

Section IV Review by the Association of Procurement Decisions

A. Except as the Association shall otherwise determine by notice to the Borrower, the following contracts shall be subject to Prior Review by the Association:

1. Goods and Services (other than Consultants' Services).

(a) each contract for goods and services (other than consultants' services) estimated to cost the equivalent of \$150,000 or more and procured on the basis of International Competitive Bidding or National Competitive Bidding;

(b) The following prior review procedures shall apply to each contract to be procured on the basis of direct contracting: (i) prior to the execution of the contract, the Borrower shall provide to the Bank a copy of the specifications and the draft contract for its approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the procedures set forth in paragraphs 2(h) and 3 of Appendix 1 to the Guidelines shall apply.

2. Consultants' Services Provided by Firms.

(a) The prior review procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more.

(b) The following prior review procedures shall apply to each contract for consultants' services provided by a firm to be procured on the basis of single source selection: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraphs 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

3. Consultants' Services Provided by Individual Consultants.

(a) The following prior review procedures shall apply to each contract for the employment of individual consultants (other than consultants to be selected on a sole source basis) estimated to cost the equivalent of \$50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates, terms of reference and conditions of employment of the consultant shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraph 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply to the contract.

(b) The following prior review procedures shall apply to each contract for the employment of individual consultants to be selected on a sole source basis: (i) the qualifications, experience, terms of reference and conditions of employment of the consultants shall be furnished to the Bank for its prior review and approval; (ii) the contract shall be awarded only after the Bank's approval shall have been given; and (iii) the provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall apply to the contract.”

- B. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

Institutional Arrangements

1. The Borrower shall maintain at all times during Project implementation:
 - (a) PP Steering Committee: (i) consisting of representatives of the public and private sectors, totaling nine members, including the president of PPESA, the Chairman of the Competition Commission, the chairman of the WTO PP Steering Committee and the president of the Addis-Ababa University; (ii) chaired by the Minister of Trade and Industry; and (iii) responsible for the general oversight and guidance of Project implementation;
 - (b) PCU responsible for: (i) the overall coordination of Project activities, including centralized financial management, procurement and reporting in respect thereof and facilitation of capacity building activities; and (ii) with personnel having functions, experience, qualifications and work ethics at all times satisfactory to the Association;
 - (c) PPESA: (i) responsible for the implementation of Part A of the Project; and (ii) to that end, the Borrower shall not, during Project implementation, amend, suspend, abrogate, repeal or waive Proclamation No 87/1994 establishing PPSEA so as to affect materially and adversely, in the opinion of the Association, the ability of PPESA to perform any of its obligations under this Agreement;
 - (d) The competition Secretariat, responsible for the implementation of Part B(1) of the Project;
 - (e) MoTI, through its World Trade Organization Department, responsible for the implementation of Part B(2) of the Project;
 - (f) MoTI, through its Enterprise Ethiopia and BMU under it, consisting of a BMU Manager, a Bizplan Officer and a support staff all employed in accordance with the provisions of Section II of Schedule 3 to this Agreement and assisted by the Matching Grant International Expert, responsible for the implementation of Part C.(1) (a) (i), C.(1) (a) (ii) and C.(1) (a) (iii) of the Project;
 - (g) FBE of Addis Ababa University, responsible for the implementation of Part C(1) (b) of the Project, and

(h) CB Subcommittee: (i) consisting of the Project Coordinator and 3 members of PP Steering Committee from the private sector; (ii) chaired by the State (deputy) Minister for Trade and Industry; (iii) responsible for approving eligible FC Subprojects, AC Subprojects and BP Subprojects; and (iv) responsible for reviewing annual operation plans and quarterly progress reports of Enterprise Ethiopia and FBE.

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

Specific execution covenants

Eligibility criteria for Subprojects.

3. Without limitation to the provisions of paragraph 2 of this Schedule, no Subproject for the carrying out of Part C(1)(a). of the Project shall be eligible for financing out of the proceeds of the Credit unless Enterprise Ethiopia, assisted by the Matching Grant International Expert, shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Project Operational Manual, that the Subproject concerned satisfies the eligibility criteria specified in the Project Operational Manual, which shall include the following:

- (a) (i) the FC Subproject shall be for the provision of training and capacity building activities in skills enhancement;
- (ii) the AC Subproject shall be for: (A) the provision of training and capacity building activities in business advocacy; and (B) the carrying out of capacity building programs for business associations and commerce, industry or trade chambers.
- (iii) the BP Subproject shall be for: (A) the strengthening of creditworthiness of aspiring SME entrepreneurs, the promotion of business development services for the achievement of increased productivity; and (B) the carrying out of capacity building programs in relation thereto, the provision of collateral for commercial credit purposes and the provision of technical advisory services in relation thereto.

- (b) except as the Association shall otherwise agree:
 - (i) the Beneficiary of the FC Grant shall provide not less than 25% of the estimated capital costs of relevant Subproject to be increased gradually over time, as specified in the POM, and
 - (ii) the Beneficiary of the AC Grant shall: (A) provide not less than 10% of the estimated capital costs of the AC Subproject, to be increased gradually over time for all advocacy capacity building activities, as specified in the POM; and (B) not initially be required to provide any counterpart funds against the estimated capital costs of the AC Subproject for capacity building activities of associations and chambers, said funds to be phased in gradually up to 50% of such capital costs over time, in accordance with the relevant provisions of the POM;
 - (iii) the Beneficiary of the BP Grant shall not be required to provide any counterpart funds against the estimated capital costs of the AC Subproject , as specified in the POM.

Terms and conditions of FC Grant Agreements, AC Grant Agreements and BP Grant Agreements

4. (a) In financing the carrying out of: (i) a FC Subproject, (ii) an AC Subproject; and (iii) a BP Subproject, all under Part C(1)(a) of the Project, CB Subcommittee shall enter into a FC Grant Agreement, an AC Grant Agreement and a BP Grant Agreement, respectively, with the Beneficiaries concerned.

(b) The FC Grant Agreement, AC Grant Agreement and BP Grant Agreement shall each set forth the respective obligations of the parties thereunder which are specified in the Project Operational Manual, under terms and conditions which shall include the following:

- (i) in accordance with relevant detailed provisions set forth in the POM, financing for an AC Subproject an FC Subproject and a BP Subproject, respectively, shall be on a grant basis, not to exceed: (A) \$25,000 equivalent per AC Grant Agreement annually; (B) \$15,000 per BP Grant Agreement; and (C) \$150,000 per FC Grant Agreement.
- (ii) the requirement that the services to be financed out of the proceeds of the AC Grant Agreement, the BP Grant Agreement

and the FC Grant Agreement be procured and paid by PCU in conformity with the provisions set forth in Schedule 3 to this Agreement and that such services be used exclusively in the carrying out of the relevant Subproject;

- (iii) the requirement that Beneficiaries, pursuant to AC Grant Agreements, BP Grant Agreements and FC Grant Agreements, maintain in the carrying out of their relevant Subprojects, an accounting and financial management system, including records and separate accounts reflecting the operations, resources and expenditures related to the carrying out of each Subproject;
- (iv) the right of the CB Subcommittee to inspect by itself or jointly with the Association the services financed under the relevant Subproject, the operation thereof and any record or relevant document; and
- (v) the right of CB Subcommittee to suspend or terminate the right of Beneficiaries to use the services financed out of the proceeds of the Credit and the Grant upon failure by any such Beneficiary to perform any of its obligations under the AC Grant Agreement, the BP Grant Agreement or the FC Grant Agreement.

Other covenants

5. The Borrower shall appoint and maintain at all times during Project implementation a Matching Grant International Expert who shall be employed in accordance with the provisions of Section II of Schedule 3 to this Agreement to assist in the management of the matching grant scheme and, thereafter, periodically review the implementation of the scheme.

6. The Borrower shall, not later than 6 months after the Effective date, establish the PP Steering Committee for the Project;

7. The Borrower shall, not later than 6 months after the Effective Date, appoint auditors referred to in Article 4.01 of this Agreement, acceptable to the Association.

8. The Borrower shall, not later than December 31 in each FY, carry out an audit of the implementation of the severance payment program, including the identification of actual beneficiaries and the disbursement arrangements in respect thereof.

Implementation reviews

9 The Borrower shall:

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

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about March 30 and September 30 in each FY, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by May 15 and November 15 in each FY, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

For purposes of this Agreement, the performance indicators to be used for Project implementation are as follows:

Outcome Indicators for the Project:

1. Increased private investment to GDP ratio from 10.5 percent in 2003/04 to 15 percent in 2009 (including privatized firms).
2. 4,500 new jobs created in the private sector by project end.
3. Value added per worker increased by 20 percent in participating firms by project end.

PART A of the Project:

1. FY1-FY2 Measure the results to determine if changes are necessary; feed lessons into the remaining of the program; trigger additional funding from other donors for redundancy, if required.
2. FY3-FY5 Monitor progress towards targets

PART B of the Project:

1. By FY 2issuance of interpretations/implementation guidelines
2. 4-6 cases in FY1-2 and 6-10 cases in FY3-5 handled by the Competition Commission
3. 4 public information programs per year conducted as a measure of ‘competition advocacy’
4. 4 of trade related studies completed and disseminated

PART C of the Project:

FC and AC Subprojects

1. Supported exporters increase their exports at a rate 25% higher than non-

supported firms.

2. Supported domestic market suppliers increase their sales at a rate 25% higher than non-supported firms.
3. Supported chambers and associations increase their memberships (number of members) at a rate 25 percent higher than do non-supported associations.

SCHOOLCAP Program

1. Academic Upgrade of Curriculum: (a) FY1- revised program syllabus; updated annually; (b) at least two new courses in FY1 and at least one new course annually.
2. Resource Upgrade for Curriculum: 10 percent pa increase of Ethiopians in faculty qualified to teach at graduate level each year.
3. National skills training: (a) At least 30 Ethiopians trained from at least five institutions every year; (b) at least 20% increase in subscribers annually for the AAU Journal.
4. 25 students per year that completed each course on trade and competition policy

BP Subprojects

1. At least 250 eligible entrepreneurs apply to BIZPLAN competition in first year, with at least 10 percent increase in number of eligible BP Subprojects annually.

SCHEDULE 6

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is modified to read:

“Section 1.01. Application of General Conditions

These General Conditions set forth the terms and conditions generally applicable to the Development Financing Agreement to the extent and subject to any modifications set forth in such agreement.

2. Section 2.01 is modified to read as follows:

- (a) Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Borrower” means the party to the Development Financing Agreement to which the Financing is made.”

- (b) Paragraph 8 of Section 2.01 is modified to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time. Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

- (c) The following new paragraphs are added after paragraph 11 of Section 2.01, and paragraphs 12 through 14 are renumbered as paragraphs 16 through 18 accordingly:

“12. “Grant” means the development grant provided for in the Development Financing Agreement.”

“13. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.”

“14. “Financing” means, collectively, the Credit and the Grant.”

“15. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

3. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing”: Sections 2.01(3), 2.01(12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01(d), Article VIII, and Article IX.

4. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is modified to read “Financing Accounts”: Section 2.01(6), the heading of Article III, 4.01, Article V, Article VI, and Section 12.03.

5. The term “Development Credit Agreement”, wherever used in the General Conditions, is modified to read “Development Financing Agreement”.

6. Article III is modified as follows:

(a) Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts*

The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

(b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Financing Agreement”.

7. Article IV is modified as follows:

(a) Section 4.02(a) and the heading of Section 4.02 are modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Borrower shall pay all amounts required to be paid by it under the Development Financing Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Borrower.”

8. Article VI is modified as follows:

(a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.

(b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.

(c) Section 6.05 is modified to read as follows:

“Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

9. Section 7.01 is modified to read as follows:

(a) The words “principal or interest or any other amount” in paragraph (b) are modified to read “any amount”.

(b) The word “credit” in paragraph (b)(i) is replaced with the words “credit, grant or financing”.

10. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Borrower shall be required to pay under the Development Financing Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Borrower.”

11. Section 6.03 (c) of the General Conditions is amended by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.