

Public Disclosure Authorized

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CREDIT NUMBER 4561-ET

Financing Agreement

(Fourth Road Sector Development Support Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 5, 2009

Public Disclosure Authorized



FINANCING AGREEMENT

AGREEMENT dated June 5, 2009, entered into between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to one hundred sixty six million Special Drawing Rights (SDR 166,000,000) (variously, “Credit” and “Financing”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.
- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is United States Dollars (USD).

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall cause the Project to be carried out by the Project Implementing Entity in accordance with the provisions of Article IV of the General Conditions and the Project Agreement.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely that a situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following, namely that the event specified in Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely that the Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the following, namely that the Subsidiary Agreement has been duly authorized or ratified by the Recipient and the Project Implementing Entity and is legally binding upon the Recipient and the Project Implementing Entity in accordance with its terms.
- 5.03. The Effectiveness Deadline is the date one hundred and twenty (120) days after the date of this Agreement.
- 5.04. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Minister responsible for finance.
- 6.02. The Recipient's Address is:

Ministry of Finance and Economic Development
P.O. Box 1905
Addis Ababa
Federal Democratic Republic of Ethiopia

Cable:	Telex:	Facsimile:
MINFIN	21147	(251-111) 551355

- 6.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

AGREED at 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/ Kenichi Ohashi

Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to assist the Recipient in strengthening and increasing its road transport infrastructure and improving the reliability thereof.

The Project constitutes the fourth phase of the Program, and consists of the following parts:

Part 1: Federal Roads Development

1. Upgrading of about 181 kilometers of the *Mekenajo - Dembi Dolo* road from gravel road to asphalt surface road.
2. Upgrading of about 121 kilometers of *Welkite - Hosaina* road from gravel road to asphalt surface road.
3. Upgrading of about 89 kilometers of the *Ankober – Awash Arba* road from earth road to asphalt surface road.
4. Provision of technical advisory services for: (a) the supervision of the civil works contracts for the three roads described in paragraphs 1, 2 and 3 of this Part 1, including the implementation of the environmental, safety, and resettlement plans and adverse social impact mitigation measures prepared for this Part of the Project; and (b) the carrying out additional traffic survey and sectional design review for *Ankober – Awash Arba* road to improve road safety.

Part 2: ERA Modernization and Road Sector Capacity Building

1. Provision of technical advisory services to undertake a study to establish a highway engineering research center and provision of training to ERA staff.
2. Provision of technical advisory services for the preparation and the carrying out of harmonized comprehensive capacity building to enhance road transport sector management capacity at ERA, Regional Roads Authorities, Woreda administrations and the private sector and provision of training of staff of these entities.

Part 3: Network Management Studies

1. Carrying out an assessment of maintenance needs and the updating of a road financing study.
2. Carrying out transport and poverty observatories in order to assess the poverty impact of the road investments.

3. Carrying out studies to support the preparation of the next phase of the RSDP and the Universal Rural Road Access Program.

SCHEDULE 2**Project Execution****Section I. Implementation Arrangements****A. Institutional Arrangements**

1. The Recipient shall maintain, at all times during Project implementation, ERA as the Project Implementing Entity with the overall responsibility for the implementation, coordination and oversight of the Project.
2. The Recipient shall cause the Project Implementing Entity to carry out the Project in accordance with the Project Implementation Plan.
3. The Recipient shall comply with the applicable provisions of and the Action Plan, and shall cause the Project Implementing Entity to carry out the provisions of the Action Plan applicable to the latter.
4. The Recipient shall not amend, abrogate, suspend or waive, or permit the Project Implementing Entity to amend, abrogate, suspend or waive, the Project Implementation Plan and the Action Plan or any of their respective provisions without the prior written agreement of the Association.
5. In case of any conflict between the terms of the Project Implementation Plan and the Action Plan with those of this Agreement, the terms of this Agreement shall prevail.

B. Subsidiary Agreement

1. To facilitate the carrying out of the Project, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. The Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions without the prior written agreement of the Association.

C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

D. Safeguards

1. The Recipient shall cause the Project Implementing Entity to: (a) carry out the Project in accordance with the EIAs, the EMPs and the RAPs and in a manner satisfactory to the Association; and (b) maintain an environmental monitoring and safety branch with responsibility for ensuring the implementation of the EMPs and the RAPs for all applicable activities undertaken throughout the Project.
2. Except as the Recipient and the Association may otherwise agree in writing, the Recipient shall not abrogate, amend, repeal, suspend, waive or otherwise fail to enforce EIAs, the EMPs and the RAPs referred to in sub-paragraph (1) of this paragraph or any provision of any one thereof.
3. In case of any conflict between the terms of the EIAs, the EMPs and the RAPs referred to in sub-paragraph (1) of this paragraph and those of this Agreement, the terms of this Agreement shall prevail.
4. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall cause the Project Implementing Entity to regularly collect, compile and submit to the Recipient and the Association, on a quarterly basis, reports on the status of compliance with each of the EIAs, the EMPs and the RAPs, and giving details of:
 - (a) measures taken in furtherance of such instruments;
 - (b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of such instruments; and
 - (c) remedial measures taken or required to be taken to address such conditions.

Section II. Project Monitoring, Reporting and Evaluation**A. Project Reports**

1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicator set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one year of the Project implementation, and shall be furnished to the Association not later than four months after the end of the period covered by such report.
- (b) The performance indicator referred to above in sub-paragraph (a) is: reduced travel time on the three roads described in Part 1 of Schedule 1 to this Agreement.

B. Financial Management, Financial Reports and Audits

1. The Recipient shall cause the Project Implementing Entity to: (a) maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions; (b) prepare and furnish to the Association not later than 45 days after the end of each calendar quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association; and (c) have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Project Implementing Entity. The audited Financial Statements for each such period shall be furnished to the Association not later than six months after the end of such period.

Section III. Procurement

A. General

1. **Works.** All works required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
2. **Consultants’ Services.** All consultants’ services required for the Project and to be financed out of the proceeds of the Financing shall be procured in accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.
3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, works shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Methods
(a) National Competitive Bidding
(b) Direct Contracting

3. National Competitive Bidding (NCB) shall follow the Recipient’s procurement procedures, subject to the following additional procedures: (i) the Recipient’s standard bid documents for procurement of works shall be used; (ii) if pre-qualification is used, the Association’s standard prequalification document shall be used; (iii) margin of preference shall not be applicable; (iv) bidders shall be given a minimum of 30 days to submit bids from the date of availability of the bidding documents; (v) use of merit points for evaluation of bids shall not be allowed; (vi) foreign bidders shall not be excluded from participation; and (vii) results of evaluation and award of contract shall be made public.

C. Particular Methods of Procurement of Consultants’ Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality and Cost-based Selection.
2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Method
(a) Single-source Selection
(b) Selection based on Consultants’ Qualifications
(c) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants

D. Review by the Association of Procurement Decisions

The Procurement Plan shall set forth those contracts which shall be subject to the Association’s Prior Review. All other contracts shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

1. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of Article II of the General Conditions, this Section, and such additional instructions as the Association shall specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the Association and as made applicable to this Agreement pursuant to

such instructions), to finance Eligible Expenditures as set forth in the table in paragraph 2 below.

2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Financing (“Category”), the allocations of the amounts of the Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Civil Works	134,400,000	100%
(2) Consultant Services and Training	14,600,000	100%
(3) Unallocated	17,000,000	
TOTAL AMOUNT	166,000,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made for payments made prior to the date of this Agreement.
2. The Closing Date is June 30, 2016.

Section V. Other Undertakings

1. No later than December 31, 2010, the Recipient shall take all the necessary measures, satisfactory to the Association, to unbundle the operations and regulatory functions of ERA such that, without limitation, DRMCs shall thereafter be legally and financially autonomous from ERA and operating as commercial entities.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)
On each June 15 and December 15:	
commencing June 15, 2019 to and including December 15, 2028	1%
commencing June 15, 2029 to and including December 15, 2048	2%

APPENDIX**Section I. Definitions**

1. “Action Plan” means the plan which is annexed to the letter dated April 2, 2009, from the Recipient to the Association outlining a set of actions that the Recipient or the Project Implementing Entity shall take, to achieve full commercialization of the DRMCs, as such plan may be amended or supplemented from time to time with the prior written agreement of the Association.
2. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Association in May 2004 and revised in October 2006.
4. “DRMCs” means district road maintenance contractors.
5. “EIAs” means, collectively, the environmental and social impact assessment studies dated March 2009 acceptable to the Association, prepared by the Project Implementing Entity for each of the three roads being upgraded under Part 1 of the Project, and such term includes any schedules to each of the said studies.
6. “EMPs” means, collectively, the environmental management plans dated March 2009 acceptable to the Association, included in the EIAs, prepared by the Project Implementing Entity for each of the three roads being upgraded under Part 1 of the Project, as such plans may be amended from time to time with the prior approval of the Association, and such term includes any schedules to each of the said plans.
7. “ERA” or “Project Implementing Entity” means the Ethiopian Roads Authority, an entity established and operating pursuant to Proclamation No. 80/1997 of the Recipient dated June 5, 1997, as amended to the date of this Agreement, and which is responsible for the construction, administration and maintenance of the federal roads in the territory of the Recipient.
8. “Fiscal Year” means the Recipient’s fiscal year beginning July 8 and ending July 7 of the next calendar year.
9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
10. “Kebele” means the lowest tier of government in the Recipient’s administrative system as established under the relevant regional legislation.

11. "Other Revenues" means the difference between: (a) revenues from all sources other than those related to operations; and (b) expenses, including - if applicable - taxes and payments in lieu of taxes, incurred in the generation of revenues in (a) above.
12. "Procurement Guidelines" means the "Guidelines: Procurement under IBRD Loans and IDA Credits" published by the Bank in May 2004 and revised in October, 2006.
13. "Procurement Plan" means the procurement plan for the Project, dated February 28, 2009 prepared by the Project Implementing Entity and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
14. "Program" means the program designed to improve reliability of access to road transport infrastructure in the territory of the Recipient 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, and set forth or referred to in the letter dated April 2, 2009, from the Recipient to the Association.
15. "Project Affected Persons" mean persons who, on account of the execution of the Project or any Part thereof: (A) have experienced or would experience direct economic and social impacts caused by: the involuntary taking of land, resulting in: (1) relocation or loss of shelter; (2) loss of assets or access to assets; or (3) loss of income sources or means of livelihood, whether or not such persons must move to another location (4); or (B) have or would have their right, title, or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, or otherwise adversely affected temporarily or permanently.
16. "Project Implementation Plan" means the plan dated February 28, 2009 consisting of different modules setting forth respectively, *inter alia*, the administrative, financial, accounting and auditing procedures; the procurement and disbursement procedures; 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 with the prior written approval of the Association, and such term includes any schedules to the Project Implementation Plan.
17. "RAPs" means, collectively, the resettlement action plans, dated March 2009 satisfactory to the Association, prepared by the Project Implementing Entity for the compensation, resettlement and rehabilitation of Project Affected Persons, acceptable to the Association, for the three roads being upgraded under Part 1 of the Project, as such plan may be amended from time to time with the prior written approval of the Association, and such term includes any schedules to each of the resettlement action plans.
18. "Regional Road Authorities" means the Recipient's regional road agencies established under respective regional state legislation to provide road infrastructure, including

- construction, administration and maintenance of the regional roads network of their respective regions.
19. “RSDF” means Road Sector Development Program, a specific program of the Recipient designed to restore and expand Recipient’s road network in order to improve transport sector operating efficiency and contribute to economic and social development.
 20. “Subsidiary Agreement” means the agreement referred to in Section I.B of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity.
 21. “Total Operating Expenses” means all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes (if applicable), and provision for depreciation on a straight-line basis at a rate of not less than 10% per annum of the average current gross value of fixed assets in operation, or other basis acceptable to the Association, but excluding interest and other charges on debt.
 22. “Total Operating Revenues” means revenues from all sources related to operations.
 23. “Total Revenues” means the sum of Total Operating Revenues and Other Revenues.
 24. “Training” means the training of persons under Part 2 of the Project carried out in accordance with the annual work plan and approved by the Association, such term to include travel and subsistence of participants of seminars and workshops, rental of training facilities, services of trainers and presenters, preparation and reproduction of training materials, and other costs directly related to preparation and implementation of training programs.
 25. “Universal Rural Road Access Program” means the Recipient’s program, currently under preparation, to develop all-weather rural access roads network to connect all Kebele centers.
 26. “Woreda” means the third tier of government in the Recipient’s administrative system as established under relevant regional legislation.