
**CREDIT NUMBER 7618-ET
GRANT NUMBER E359-ET**

Financing Agreement

(First Sustainable and Inclusive Growth Development Policy Financing)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

FINANCING AGREEMENT

AGREEMENT dated as of the Signature Date between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (i) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form 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 a grant and a credit, which are deemed as Concessional Financing for purposes of the General Conditions (collectively, “Financing”) in the following amounts:
 - (a) an amount equivalent to seven hundred and sixty million three hundred thousand Special Drawing Rights (SDR 760,300,000) (“Grant”); and
 - (b) an amount equivalent to three hundred and eighty million two hundred thousand Special Drawing Rights (SDR 380,200,000) (“Credit”).
- 2.02. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.03. The Payment Dates are January 1 and July 1 in each year.
- 2.04. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
- 2.05. The Payment Currency is Dollar.

- 2.06. Without limitation upon the provisions of Section 5.05 of the General Conditions, the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

- 3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 5.05 of the General Conditions:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient's macroeconomic policy framework and the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part of it, 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 and is continuing for a period of thirty (30) days after notice of the event has been given by the Association to the Recipient.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient's macroeconomic policy framework.
- 5.02. The Effectiveness Deadline is the date one hundred and twenty (120) days after the Signature Date.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is its minister in charge of finance.

6.02. For purposes of Section 11.01 of the General Conditions:

(a) the Recipient's address is:

Ministry of Finance
P.O. Bos 1905
Addis Ababa
Federal Democratic Republic of Ethiopia; and

(b) the Recipient's Electronic Address is:

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

6.03. For purposes of Section 11.01 of the General Conditions:

(a) the Association's address is:

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

(b) the Association's Electronic Address is:

Telex:	Facsimile:
248423 (MCI)	1-202-477-6391

AGREED as of the Signature Date.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By



Authorized Representative

Name: H.E. Ato Ahmed Shide

Title: Minister of Finance Ethiopia

Date: 30-Jul-2024

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Maryam Salim

Title: Country Director

Date: 30-Jul-2024

SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

- A. Actions Taken Under the Program.** The actions taken by the Recipient under the Program include the following:
1. To strengthen the central bank's oversight of the banking sector, the Council of Ministers (COM) has submitted to Parliament amendments to the Establishment Proclamation for the National Bank of Ethiopia enhancing the independence of the NBE and its mandate to promote financial stability.
 2. To strengthen financial stability and intermediation: (a) the COM has submitted to Parliament the draft Banking Business Proclamation; (b) the NBE has issued five directives that strengthen regulations for: (i) asset classification and provisioning (SBB/90/2024); (ii) related party transactions (SBB/87/2024); (iii) large exposures (SBB/88/2024); (iv) fit and proper requirements for bank boards (SBB/89/2024); and (v) corporate governance (SBB/91/2024); and (c) the COM has adopted a Reform, Restructuring and Recapitalization Plan for Commercial Bank of Ethiopia (CBE).
 3. To support agricultural exports, the Ministry of Trade and Regional Integration, has: (a) issued two directives lifting export bans on maize and sorghum (No.01.85/66500), and barley (No.0.85/66927); and (b) submitted a tariff offer to the AfCFTA aligning tariffs on trade in goods to AfCFTA standards.
 4. To increase revenues from the value-added tax (VAT), the COM has submitted to Parliament amendments to the VAT Proclamation that: (a) reduce the number of items exempted for VAT; (b) limit the zero-rating for VAT purposes to only exported and re-exported items; (c) permit voluntary VAT registration by currently exempted businesses; and (d) grants exclusive authority to the Federal Government to collect the VAT.
 5. To support more efficient, transparent, and sustainable procurement, the Recipient's Parliament has approved the Federal Public Procurement and Property Administration Proclamation (No.1333/2024) mandating the use of e-procurement and the incorporation of green procurement principles.
 6. To increase the transparency of state-owned enterprises: (a) Ethiopian Electric Power, Ethiopian Electric Utility, Ethio Telecom, Ethiopian Agricultural Business Corporation, and Ethiopian Petroleum Supply Enterprise have published audited financial statements for 2021/22; and (b) the Ethiopian Investment Holdings and the Public Enterprise Holding and Administration have issued directives

mandating state-owned enterprises under these institutions to prepare and publish audited financial statements on an annual basis effective from the next fiscal year (EIH-02-2139-24, TGF-219/3/01).

7. To strengthen the financial sustainability of the energy sector: (a) the Ministry of Finance has issued a directive replacing 100 percent of outstanding debt obligations from the Ethiopia Electric Power owed to the Commercial Bank of Ethiopia as of May 2024 (EHA65/7/9); and (b) the COM has adopted a 4-year electricity tariff adjustment, raising end-user tariffs by at least 10 percent each quarter for the first year, with the objective to move toward full recovery of operational and debt service costs for the electricity sector by 2028.
8. To better protect the poor and improve the management of safety nets: (a) the Recipient has committed to increase the number of beneficiaries and benefits paid per beneficiary in both the rural and urban Productive Safety Nets Programs; and (b) the Recipient's Parliament has approved the Personal Data Protection Proclamation (No.1321/2024) establishing the legal framework to protect and secure personal administrative data.
9. To support sustainable land and forest management, build resilience for rural and forest communities, and reduce carbon emissions: (a) the Recipient's Parliament has approved the Rural Land Administration and Use Proclamation (No.1324/2024) establishing rural land property rights; and (b) the COM has issued regulations (544/2024) for forest management creating a legal basis for the sale of emissions reduction.
10. To strengthen the management of environmental and social risks, the COM has submitted to Parliament amendments to the Environmental Impact Assessment Proclamation establishing enhanced mechanisms and procedures for environmental and social impact assessments in investment projects.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.
- B. Allocation of Financing Amounts.** The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing proceeds. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Credit Allocated (expressed in SDR)	Amount of the Grant Allocated (expressed in SDR)
(1) Single Withdrawal Tranche	760,300,000	380,200,000
TOTAL AMOUNT	760,300,000	380,200,000

C. Withdrawal Tranche Release Conditions

1. No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient’s macroeconomic policy framework.

D. Deposit of Financing Amounts

1. Notwithstanding the provisions of Section 2.03 of the General Conditions:
 - (a) the Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Financing Account, and thereafter maintain on terms and conditions satisfactory to the Association a dedicated account in US Dollars (“Foreign Currency Dedicated Account”); and
 - (b) all withdrawals from the Financing Account shall be deposited by the Association into the Foreign Currency Dedicated Account.
2. The Recipient, within thirty (30) days after the withdrawal of the Financing from the Financing Account, shall report to the Association: (a) the exact sum received into the Foreign Currency Dedicated Account; (b) the details of the account to which the Ethiopian Birr equivalent of the Financing proceeds will be credited; (c) the record that an equivalent amount has been accounted for in the Recipient’s budget management systems; and (d) the statement of receipts and disbursement of the Foreign Currency Dedicated Account.

E. Audit. The Recipient shall:

1. have the Foreign Currency Dedicate Account audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;
2. furnish to the Association as soon as available, but in any case not later than three (3) months after the end of the Recipient’s fiscal year, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably

request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and

3. furnish to the Association such other information concerning the Dedicated Accounts and their audit as the Association shall reasonably request.
- F. Closing Date.** The Closing Date is December 31, 2027.

SCHEDULE 2

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each January 1 and July 1:	
commencing January 1, 2031, to and including July 1, 2062	1.56250%

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to renumbered Section 3.03 (b) (originally numbered Section 3.05 (b)) of the General Conditions.

APPENDIX

Definitions

1. “AfCFTA” means Africa Continental Free Trade Area means the free trade area among member states of the African Union established by an agreement signed in Rwanda, Kigali, on the 21st day of March 2018 and ratified by the Recipient through Agreement Establishing the African Continental Free Trade Area Ratification Proclamation No. 1124/2019 dated 5th April 2019.
2. “Banking Business Proclamation” means the draft proclamation acceptable to the Association, submitted by the COM to Parliament.
3. “Commercial Bank of Ethiopia” means the Commercial Bank of Ethiopia established and operating pursuant to the Commercial Bank of Ethiopia Establishment Council of Ministers Regulations No.202/1994 (as amended) dated 22nd September 1994.
4. “Council of Ministers” or “COM” means the Recipient’s council of ministers of the executive branch, established and operating pursuant to Article 76 and 77 of the Recipient’s Constitution responsible for approving proposals by the executive branch for legislation by the Parliament.
5. “Environmental Impact Assessment Proclamation” means the Environmental Impact Assessment Proclamation No. 299/2002 dated 3rd December 2022.
6. “Ethio Telecom” means Ethio-Telecom established and operating pursuant to the Ethio-Telecom Establishment Council of Ministers Regulation No. 197/2010 (as amended) dated 28th January 2011.
7. “Ethiopia Electric Power” or “EEP” means Ethiopian Electric Power established and operating pursuant to Ethiopian Electric Power Establishment Council of Ministers Regulation No. 302/2013 dated 27th December 2013.
8. “Ethiopia Electric Utility” or “EEU” means Ethiopian Electric Utility established and operating pursuant to Ethiopian Electric Power Establishment Council of Ministers Regulation No. 303/2013 dated 27th December 2013.
9. “Ethiopia Investment Holdings” means Ethiopian Investment Holdings established and operating pursuant to Article 54 of the Definition of Powers and Duties of the Executive Organs Proclamation No. 1263/2021 dated 25th January 2022 and the Definition of Objectives and Function of the Ethiopian Investment Holdings Council of Ministers Regulation No 487/2022 dated 31st January 2022.

10. “Ethiopian Agricultural Business Corporation” means the Ethiopian Agricultural Business Corporation established and operating pursuant to the Ethiopian Agricultural Business Corporation Establishment Council of Ministers Regulation No. 368/2015 dated 22nd December 2015.
11. “Ethiopian Airlines” means Ethiopian Airlines Group established and operating pursuant to the Ethiopian Airlines Group Establishment Council of Ministers Regulation No. 406/2017 dated 20th July 2017.
12. “Ethiopian Petroleum Supply Enterprise” means the Ethiopian Petroleum Supply Enterprise established and operating pursuant to the Ethiopian Petroleum Supply Enterprise Establishment Council of Ministers Regulation No. 265/2012 dated 26th of June 2012.
13. “Federal Government” means the Recipient’s executive branch of government at the federal level.
14. “Federal Public Procurement and Property Administration Proclamation” means the Recipient’s proclamation on public procurement and property administration No. 1333/2024.
15. “Foreign Currency Dedicated Account” means the account referred to in Part D.1(a) of Section II of Schedule 1 to this Agreement.
16. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Development Policy Financing”, dated December 14, 2018 (Last revised on July 15, 2023).
17. “Ministry of Finance” means the Recipient’s ministry in charge of finance, or any successor thereto.
18. “Ministry of Trade and Regional Integration” means the Recipient’s ministry in charge of trade and regional integration, or any successor thereto.
19. “National Bank of Ethiopia” or “NBE” means the Recipient’s central bank, established and operating pursuant to the National Bank of Ethiopia Establishment (as Amended) Proclamation No. 591/2008 dated 11th August 2008.
20. “Parliament” means the branch of the Recipient’s government established and operating pursuant to the Recipient’s Constitution in charge of considering and passing legislation.
21. “Productive Rural Safety Net Program” means the Recipient’s flagship rural social protection program, launched in 2005, which provides social assistance to poor and vulnerable households in targeted rural woredas through public works linked cash and food transfers, direct cash and food transfers, shock-responsive cash and

food transfer support, tailored livelihood enhancement interventions and linkages to available social services.

22. “Productive Safety Nets Programs” means the Productive Rural Safety Net Program and the Urban Productive Safety Net Program.
23. “Program” means: the program of objectives, policies, and actions set forth or referred to in the letter dated July 11, 2024, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution and comprising actions taken, including those set forth in Section I of Schedule 1 to this Agreement, and actions to be taken consistent with the program’s objectives.
24. “Public Enterprise Holding and Administration” means the Recipient’s agency established and operating pursuant to Article 53 of the Definition of Powers and Duties of the Executive Organs Proclamation No. 1263/2021 dated 25th January 2022 and Definition of Powers and Duties of the Public Enterprises Holding and Administration Agency Regulation No.445 /2019 dated 3rd January 2019.
25. “Rural Land Administration and Use Proclamation” means the Federal Democratic Republic of Ethiopia Rural Land Administration and Land Use Proclamation No, 456/2005," dated 15th July 2005.
26. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
27. “Single Withdrawal Tranche” means the amount of the Financing allocated to the category entitled “Single Withdrawal Tranche” in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
28. “Urban Productive Safety Net Program” means the Government of Ethiopia's flagship urban social protection program, launched in 2016, which provides social assistance to poor and vulnerable households in targeted urban areas through public works linked cash transfers, direct cash transfers, shock-responsive cash transfers and recovery support including for internally displaced persons, re-integration of urban destitute, tailored livelihoods enhancement interventions, integration of refugees and hosts, youth apprenticeships and development of job search ecosystem.
29. “VAT” means value added tax.
30. “VAT Proclamation” means the Recipient’s Value Added Tax Proclamation No.285/2002 (as amended), dated 4th July 2002.