

**CONFORMED COPY**

**GRANT NUMBER H073 ET**

# **Development Grant Agreement**

**(First Poverty Reduction Support Operation)**

**between**

**FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated March 5 , 2004**

**GRANT NUMBER H073 ET**

**DEVELOPMENT GRANT AGREEMENT**

AGREEMENT, dated March 5, 2004, between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated December, 17, 2003, (the Letter of Development Policy) from the Recipient describing therein a program of actions, objectives and policies designed to reduce poverty in its territory by enhancing rapid and equitable economic growth, through rural and private sector development, while maintaining macroeconomic stability and strengthening public sector management and governance, including in the context of decentralization (hereinafter called the Program), declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during the execution thereof;

(B) the Recipient has carried out the measures and taken the actions described in Schedule 2 to this Agreement to the satisfaction of the Association and has maintained a macroeconomic policy framework satisfactory to the Association; and

(C) on the basis, *inter alia*, of the foregoing, the Association has decided, in support of the Program, to provide such assistance to the Recipient by making the Grant in a single tranche as hereinafter provided;

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 October 6, 1999), with the modifications set forth in Schedule 3 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) “Birr” means the currency of the Recipient;
- (b) “CBE” means the Commercial Bank of Ethiopia, a state-owned retail banking company established and operating pursuant to Regulation 202/1994 of the Recipient;
- (c) “CSA” means Central Statistical Authority, established and operating pursuant to Proclamation No. 303/1972 of the Recipient;
- (d) “Deposit Account” means the account referred to in Section 2.02 (b) of this Agreement;
- (e) “Fiscal Year” and “FY” mean the Recipient’s fiscal year beginning July 8 and ending July 7 of the following calendar year;
- (f) “MEFF” means Macroeconomic and Fiscal Framework, a medium-term financing plan developed by the Recipient to achieve an integrated planning and budget system in Ethiopia;
- (g) “MoFED” means either the Recipient’s Ministry of Finance and Economic Development or the Minister in charge thereof;
- (h) “NBE” means the National Bank of Ethiopia, the Recipient’s central bank established and operating pursuant to Proclamation No. 83/1994 of the Recipient;
- (i) “PIP” means the Recipient’s Public Investment Program;
- (j) “PEP” means the Recipient’s Public Expenditure Program;
- (k) “Proclamation, Regulations, Directives, and Circulars” mean various laws of the Recipient adopted respectively by the Recipient’s Parliament, Ministries, Regions and Public Agencies;
- (l) “PSIP” means Performance and Service Delivery Improvement Program, prepared by federal ministries, their regional bureaus and various authorities at all levels of government, and which include specific civil service action plans to support improvement in service delivery across the territory;

(m) “Region, Zone, *Wereda*, and *Kebele*” mean either a specific administrative area within the Recipient’s territory as defined in the Recipient’s Constitution or different local government levels within the Recipient’s territory established and operating pursuant to the relevant Regional Constitutions; and

(n) “Access to New Land Program” means a component of the Recipient’s 2003 War on Hunger Program, designed to address issues of chronic food insecurity in the Recipient’s territory.

## ARTICLE II

### The Grant

Section 2.01. The Association agrees to make available to the Recipient, on terms and conditions set forth or referred to in the Development Grant Agreement an amount in various currencies equivalent to eighty-three million four hundred thousand Special Drawing Rights (SDR 83,400,000) (the Grant).

Section 2.02. (a) Subject to the provisions of paragraphs (b) and (c) of this Section, the Recipient shall be entitled to withdraw the proceeds of the Grant from the Grant Account in support of the Program.

(b) The Recipient shall open, prior to furnishing to the Association the first request for withdrawal from the Grant Account, and thereafter maintain in NBE, a deposit account in Dollars on terms and conditions satisfactory to the Association. All withdrawals from the Grant Account shall be deposited by the Association into the Deposit Account.

(c) The Recipient undertakes that the proceeds of the Grant shall not be used to finance expenditures excluded pursuant to the provisions of Schedule 1 to this Agreement. If the Association shall have determined at any time that any proceeds of the Grant shall have been used to make a payment for an expenditure so excluded, the Recipient shall, promptly upon notice from the Association: (i) deposit into the Deposit Account an amount equal to the amount of said payment; or (ii) if the Association shall so request, refund such amount to the Association. Amounts refunded to the Association upon such request shall be credited to the Grant Account for cancellation.

Section 2.03. The Closing Date shall be December 31, 2004 or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association 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, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Recipient; 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. Commitment charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.06. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### **ARTICLE III**

#### **Particular Covenants**

Section 3.01. (a) The Recipient undertakes to implement the Program with due diligence to ensure that actions and policies adopted under the Program are put into effect.

(b) The Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program.

(c) 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.

(d) Without limitation upon the provisions of paragraph (a) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Grant which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program, including any action specified in Schedule 2 to this Agreement.

Section 3.02. Upon the Association's request, the Recipient shall:

- (a) have the Deposit Account audited in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (b) furnish to the Association as soon as available, but in any case not later than six months after the date of the Association's request for such audit, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (c) furnish to the Association such other information concerning the Deposit Account and the audit thereof as the Association shall have reasonably requested.

#### **ARTICLE IV**

##### **Additional Event of Suspension**

Section 4.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

#### **ARTICLE V**

##### **Effective Date; Termination**

Section 5.01. 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 VI

### Representative of the Recipient; Addresses

Section 6.01. The Minister of Finance and Economic Development of the Recipient is designated as the representative of the Recipient for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Recipient:

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

|        |              |
|--------|--------------|
| Telex: | Facsimile:   |
| 21147  | 251-1-551355 |

For the Association:

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

|                             |                                |                |
|-----------------------------|--------------------------------|----------------|
| Cable address:              | Telex:                         | Facsimile:     |
| INDEVAS<br>Washington, D.C. | 248423 (MCI) or<br>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 the District of Columbia, United States of America, as of the day and year first above written.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Kassahun Ayele  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Callisto Madavo  
Regional Vice President  
Africa Region



## SCHEDULE 1

### Excluded Expenditures

For purposes of Section 2.02 (c) of this Agreement, the proceeds of the Grant shall not be used to finance any of the following expenditures:

1. expenditures in the currency of the Recipient or for goods or services supplied from the territory of the Recipient;
2. expenditures for goods or services supplied under a contract which any national or international financing institution or agency other than the Bank or the Association shall have financed or agreed to finance, or which the Bank or the Association shall have financed or agreed to finance under another credit or a loan;
3. expenditures for goods included in the following groups or subgroups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

| <u>Group</u> | <u>Subgroup</u> | <u>Description of Items</u>   |
|--------------|-----------------|---|
| 112          | -               | Alcoholic beverages   |
| 121          | -               | Tobacco, unmanufactured, tobacco refuse                               |
| 122          | -               | Tobacco, manufactured (whether or not containing tobacco substitutes) |
| 525          | -               | Radioactive and associated materials                                  |
| 667          | -               | Pearls, precious and semiprecious stones, unworked or worked          |

| <u>Group</u> | <u>Subgroup</u> | <u>Description of Items</u>   |
|--------------|-----------------|---|
| 718          | 718.7           | Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors   |
| 728          | 728.43          | Tobacco processing machinery  |
| 897          | 897.3           | Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems) |
| 971          | -               | Gold, non-monetary (excluding gold ores and concentrates)   |

4. expenditures for goods intended for a military or paramilitary purpose or for luxury consumption;

5. expenditures for environmentally hazardous goods (for purposes of this paragraph the term "environmentally hazardous goods" means goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party, and any other goods designated as environmentally hazardous by agreement between the Recipient and the Association);

6. expenditures: (a) in the territories of any country which is not a member of the Bank or for goods procured in, or services supplied from, such territories; or (b) on account of any payment to persons or entities, or any import of goods, if such payment or import is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

7. expenditures under a contract in respect of which the Association determines that corrupt or fraudulent practices were engaged in by representatives of the Recipient or of a beneficiary of the Grant during the procurement or execution of such contract, without

the Recipient having taken timely and appropriate action satisfactory to the Association to remedy the situation.

## **SCHEDULE 2**

### **Actions Referred to in Recital (B)**

#### **of the Preamble to this Agreement**

1. Public Sector Management

In accordance with paragraphs 19, 20, 21, 22, 25 and 26 of its Letter of Development Policy, the Recipient has furnished to the Association evidence, in form and substance satisfactory to the Association, of the following:

(a) (i) approval by the Federal Cabinet of the MEFF for 2004/06-2006/07; and (ii) Issuance by MoFED of : (A) a Directive on the financial calendar; and (B) the indicative planning figures concerning the federal subsidy program to the Regions and MoFED's federal specific purpose grants to the Regions;

(b) adoption by Regional Cabinets of 4 selected Regions of the new chart of accounts;

(c) issuance by MoFED of a Circular on the devolution of procurement responsibilities from MoFED to the federal budgetary institutions;

(d) enactment of legislation to assign expenditure and revenue responsibilities to municipalities in four Regions and Addis-Ababa;

(e) carrying out of: (i) institutional restructuring actions and performance improvement plans in Addis-Ababa and 16 selected municipalities; and (ii) PSIP pilots in 11 selected ministries, bureaus and authorities of the Recipient; and

(f) issuance by CSA of guidelines and service standards adequate to ensure the timely release of, and access to, unprocessed statistical data.

2. Rural Development and Vulnerability Reduction

In accordance with paragraphs 29, 31, 32 and 33 of its Letter of Development Policy, the Recipient has furnished to the Association evidence, in form and substance satisfactory to the Association, of the following:

(a) enactment in 4 selected Regions of Rural Land Regional Proclamations to enhance land tenure security for rural households, and adoption of associated Directives for the establishment of land administration institutions;

(b) (i) increasing the percentage of rural extension program staff not involved in delivering agricultural inputs or administering rural credit in connection therewith to about 70% of all such rural extension staff, and (ii) reducing the share of annual fertilizer sales backed by Regions' guarantees to 200,000 metric tons;

(c) issuance by MoFED of a Circular notifying the Regions that, upon finalization of the implementation guidelines for the Recipient's Access to New Land Program, access to Recipient's federal specific purpose grants for food security will require compliance with said guidelines; and

(d) enactment of legislation for the establishment of: (i) appropriate environment protection administrative structures, and (ii) procedures and modalities for the carrying out of environment impact assessments and environmental pollution control.

3. Private Sector Development

In accordance with paragraphs 35, 39 and 40 of its Letter of Development Policy, the Recipient has furnished to the Association evidence, in form and substance satisfactory to the Association, of the following:

(a) actions adequate to ensure participation of the Recipient in global trade consultations;

(b) approval by the MoFED of a restructuring plan for CBE, and thereafter commencement of implementation of said plan; and

(c) reduction from \$425 to \$65 of the cost of registration for new businesses, coupled with a reduction from 44 days to 8 days in the time frame for registration of such businesses.

4. Human Development

In accordance with paragraph 47 of its Letter of Development Policy, the Recipient has furnished to the Association evidence, in form and substance satisfactory to the Association, of the adoption by the Minister of Health of guidelines defining (i) contents of the minimum package of services at *wereda* level, including the health extension program; and (ii) responsibilities between health posts and health centers in relation thereto.

### SCHEDULE 3

#### Modifications to the General Conditions

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

1. Sections 3.02, 3.03, 3.04 (a), 3.04 (b), 3.05, 6.05, Article VII, are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
  - (a) The term “Borrower” is modified to read “Recipient”.
  - (b) The term “Credit” is modified to read “Grant”.
  - (c) The term “credit” is modified to read “grant”; except that where used in Sections 6.02 (a) (ii) and 6.02 (c) (i), as modified below, the term “credit” shall continue to read “credit”.
  - (d) The term “Credit Account” is modified to read “Grant Account”.
  - (e) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. 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 Commitment Charges are Payable*”

    - (a) The Recipient shall pay the commitment charge on the Grant in the currency specified in the Development Grant 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 “commitment charge”.
- (c) Section 4.03 and its heading are modified to read as follows:

*“Section 4.03. Amount of the Grant*

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

- 4. Section 6.02 is modified as follows:
  - (a) The phrase “any other development credit agreement” in Section 6.02 (a) (ii) is modified to read: “any other development grant agreement or any development credit agreement or development financing agreement”.
  - (b) The phrase “any development credit agreement” in Section 6.02 (c) (i) is modified to read: “any development grant agreement, development credit agreement or development financing agreement”.
- 5. The words “The principal of, and any other charges on” in paragraph (a) of Section 8.01 are modified to read “The commitment charge on”.
- 6. Section 9.06 (c) is modified to read:

“(c) Not later than six months after the Closing Date or such later date as may be agreed for this purpose between the Recipient and the Association, the Recipient shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the program referred to in the Preamble to the Development Grant Agreement, the performance by the Recipient and the Association of their respective obligations under the Development Grant Agreement and the accomplishment of the purposes of the Grant.”
- 7. Section 9.04 is deleted and Sections 9.05, 9.06, 9.07 and 9.08 are renumbered, respectively, Sections 9.04, 9.05, 9.06 and 9.07.



8. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”