

CONFORMED COPY

CREDIT NUMBER 4315 - ET

Financing Agreement

(Third Road Sector Development Support Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 8, 2007

CREDIT NUMBER 4315 - ET

FINANCING AGREEMENT

AGREEMENT dated June 8, 2007, entered into between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”).

WHEREAS: (A) the Association has received an updated letter from the Recipient, dated April 17, 2007, describing a program designed to improve reliability of access to road transport infrastructure in the territory of the Recipient with a view to removing constraints to economic growth, thus contributing to poverty alleviation through improvements in rural and urban connectivity, market integration, accessibility to basic social services, and trade facilitation (the Program);

(B) the Recipient has requested that the Association support the Recipient’s execution of the Program through a series of credits or grants over a period of approximately twelve (12) years to be utilized by the Recipient in the implementation of the Program;

(C) the Recipient, having satisfied itself as to the feasibility and priority of the Project described in Schedule 1 to this Agreement, has requested the Association to assist in the financing of the Project;

(D) the Project will be carried out by the Ethiopian Roads Authority (ERA) (Project Implementing Entity) with the Recipient’s assistance, and as part of such assistance, the Recipient will make the proceeds of the credit provided for in Article II of this Agreement (the Financing) available to ERA, as set forth in this Agreement; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Recipient upon the terms and conditions set forth in this Agreement and in the agreement of even date herewith between the Association and the Ethiopian Roads Authority;

NOW THEREFORE the 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 forty-eight million seven hundred thousand Special Drawing Rights (SDR 148,700,000) (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 May 15 and November 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 Dollars.

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 Events of Suspension consist of the following:
- (a) The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project Agreement.
 - (b) 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:
- (a) The event specified in paragraph (a) of Section 4.01 of this Agreement occurs and is continuing for a period of 60 days after notice of the event has been given by the Association to the Recipient.
 - (b) The event specified in paragraph (b) of Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Condition of Effectiveness consists that the Subsidiary Agreement, satisfactory in form and substance to the Association, has been executed on behalf of the Recipient and the Project Implementing Entity and become effective.
- 5.02. The Additional Legal Matter consists 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 ninety (90) 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 Article IV and V of the General Conditions and Schedule 2 to this Agreement shall terminate is 20 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) or 64145 (MCI)	1-202-477-6391

AGREED at Addis Ababa, Federal Democratic Republic of Ethiopia, as of the day and year first above written.

FEDERAL DEMOCRATRIC REPUBLIC OF ETHIOPIA

By /s/ Makonnen Manyazewal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ishac Diwan

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; strengthening the institutional capacity in quality and efficiency of road construction, management and maintenance; and creating conditions conducive for the domestic construction industry to develop in the road transport sector.

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

Part 1: Federal roads development

1. Upgrading of about 107 kilometers of the *Gonder - Debark* trunk road from gravel road to hot asphalt mix surface road with a 7 meter wide carriageway and 1.5 meter wide shoulders.
2. Rehabilitation of about 134 kilometers of the *Gedo - Nekempte* trunk road with a hot asphalt mix surface road with a 7 meter wide carriageway and 1.5 meter wide shoulders.
3. Upgrading of about 268 kilometers of the *Aposto - Wendo - Negele* gravel road to a double bituminous surfaced treated road with a 7 meter wide carriageway and 1.5 meter wide shoulders.
4. Provision of technical advisory services for 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.

Part 2: Regional roads development

1. Construction of about 70 kilometers section (*Yalo - Nehile*) of the *Yalo - Dalol* road to a gravel surface road with stage construction method.
2. Provision of technical advisory services for the supervision of the civil works contracts for the road described in paragraph 1 of this Part 2, including the implementation of the environmental, safety, and resettlement plans and adverse social impact mitigation measures prepared for this Part of the Project.

Part 3: Institutional strengthening and modernization of ERA

1. Provision of quality control and technical advisory services to support quality assurance, including organizing technology transfer and training activities for relevant staff, in (a) procurement processing, contract management and documentation, providing experts to work directly with key line management and staff; and (b) monitoring and documentation of actions to mitigate adverse impacts of environmental, social and safety related activities, and implementation of social aspects of transport services, conducting independent routine project site visits and quality control.
2. Establishment of in-house systems for monitoring: (a) performance of contractors and consultants, and (b) construction costs and unit rates, collection of construction cost information from ongoing contract bid prices and data from contract implementation; and collaboration with the Ministry of Works and Urban Development, and the Central Statistics Agency in the publication and updating of construction labor wages and material prices and associated annual changes.
3. Support for implementing the ERA modernization activities, through the development of systems and training, including but not limited to recommendations from the ongoing business process reengineering.

Part 4: Preparatory activities and studies

Provision of technical advisory services to: (a) carry out feasibility and environmental impact assessment studies, as well as design and design review of road projects to be included under follow-on operations; (b) design a pilot project of output based and performance based road contract as a follow-on component of on-going term maintenance contracts; (c) support ERTTP coordination and implementation; and (d) study and support capacity building to improve urban transport management.

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

1. The Recipient shall maintain 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.

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 (“Subsidiary Agreement”).
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. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

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: (i) cause the Project Implementing Entity to carry out the Project in accordance with the guidelines, rules and procedures defined in the EMPs and the RAPs and in a manner satisfactory to the Association; and (ii) maintain an environmental management officer with responsibility for implementing the EMPs and 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 the EMPs and the RAPs referred to in sub-paragraph (1) of this paragraph or any provision thereof.

3. In case of any conflict between the terms of 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.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and through the Project Implementing Entity prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of indicators agreed with the Association. Each Project Report on the progress of the monitoring and evaluation indicators 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.
2. For purposes of Section 4.08 (c) of the General Conditions, the report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association not later than six months before the Closing Date.

B. Financial Management, Financial Reports and Audits

The Recipient shall cause the Project Implementing Entity to: (i) maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions; (ii) 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 (iii) 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 Recipient. 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. **Goods and Works.** All goods and 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 Goods and Works

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

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

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

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods and services other than consultant services estimated to cost the equivalent of \$250,000 or more and each contract for works estimated to cost the equivalent of \$500,000 or more, procured on the basis of International Competitive Bidding or National Competitive Bidding; (b) each contract procured on the basis of Direct Contracting; (c) each contract for consultants’ services procured on the bases of Single-source Selection; and (d) each contract for consultants’ services provided by a firm estimated to cost the equivalent of \$100,000 or more or provided by individual consultants estimated to cost the equivalent of \$50,000 or more. 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 Credit to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Credit Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Civil Works		
(a) for Part 1 of the Project	103,210,000	100% of foreign expenditures
(b) for Part 2 of the Project	7,310,000	65%
(2) Consultants' Services	14,050,000	70%
(3) Unallocated	24,130,000	
TOTAL AMOUNT	148,700,000	

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, 2015.

SCHEDULE 3**Repayment Schedule**

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15:	
Commencing November 15, 2017 to and including May 15, 2027	1%
Commencing November 15, 2027, to and including May 15, 2047	2%

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

APPENDIX**Section I. Definitions**

1. “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.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “EMPs” means the Environmental Management Plans prepared by the Project Implementing Entity for the four roads of the Project, dated December 2006.
5. “ERA” 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 date, and which is responsible for the construction, administration and maintenance of the federal roads in the territory of the Recipient.
6. “ERTTP” means the Ethiopian Rural Travel and Transport Program, a specific program of the Recipient designed to address the travel and transport needs of rural communities with inadequate access and mobility, established pursuant to the directive issued by the Office of the Prime Minister of the Recipient dated February 9, 2001.
7. “Fiscal Year” means the Recipient’s fiscal year beginning July 8 and ending July 7 of the next calendar year.
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
9. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
10. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 28, 2007, 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.

11. “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 17, 2007, from the Recipient to the Association.
12. “Project Implementation Plan” means the plan dated November 2006, consisting of different modules setting forth respectively, *inter alia*, the administrative, financial, accounting and auditing procedures; the procurement and disbursement procedures; the environmental procedures manual; the detailed performance indicators to be used for the Project, and other activities and arrangements to be used for the purpose of implementing the Project, as the same may be amended from time to time, and such term includes any schedules to the Project Implementation Plan.
13. “Project Implementing Entity” means the Ethiopian Roads Authority.
14. “Project Implementing Entity’s Legislation” means Proclamation No.80/1997 of the Recipient, dated June 5, 1997, as amended to the date of this Agreement.
15. “RAPs” means the Resettlement Action Plans prepared by the Project Implementing Entity for the four roads of the Project, dated December 26, 2006.
16. “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.