

**CONFORMED COPY**

**CREDIT NUMBER 4292 - ET  
GRANT NUMBER H287 - ET**

# **Financing Agreement**

**(Urban Water Supply and Sanitation Project)**

**between**

**FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated May 16, 2007**

**CREDIT NUMBER 4292 - ET**

**GRANT NUMBER H287 - ET**

## **FINANCING AGREEMENT**

AGREEMENT dated May 16, 2007, 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 forty-three million seven hundred thousand Special Drawing Rights (SDR 43,700,000) (variously, “Credit” and “Financing”) and a grant in an amount equivalent to twenty-three million five hundred thousand Special Drawing Rights (SDR 23,500,000) (variously, “Grant” 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 April 15 and October 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 Part A to be carried out by AAWSA, Part B to be carried out by the four Secondary Cities, and Part C to be carried out by the MWR and the Regional Water Resources Development Bureaus, all in accordance with the provisions of Article IV of the General Conditions.
- 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.

### **ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Conditions of Effectiveness consist of the following:
- (a) MWR, on behalf of the Secondary Cities, and AAWSA have adopted the Project Implementation Manual in form and substance satisfactory to the Association.
  - (b) MWR has employed a PCU Project Coordinator, a procurement specialist, and an additional accountant, all having experience and qualifications satisfactory to the Association.
  - (c) MOFED has entered into the Subsidiary Agreement with AAWSA to make available a portion of the proceeds of the financing available for the execution of Part A of the Project, in form and substance satisfactory to the Association.
- 5.03. The Effectiveness Deadline is the date one hundred 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 at the time responsible for finance and economic development.

6.02 The Recipient's Address is:

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

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/ Mekonnen Manyazewal

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ishac Diwan

Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to increase access to sustainable water supply and sanitation services in Addis Ababa and four Secondary Cities.

The Project consists of the following parts:

#### Part A: Addis Ababa Water Supply and Sanitation

1. Increased Access to Water Supply and Sanitation
  - (a) Upgrading of the Legadadi dam and expansion of the treatment plant, protection of reservoir catchments, and development of deep boreholes.
  - (b) Extension of the primary and secondary distribution network into unserved areas.
  - (c) Development of a community water supply and sanitation strategy; and provision of tertiary distribution, residential connections, and public sanitation facilities in low income areas.
  - (d) Extension of sewer lines, provision of sewer connections, and expansion of the Kality wastewater treatment plant.
  - (e) Provision of equipment, spares and rolling stock for sludge removal services.
  - (f) Provision of consulting services for planning, design, safeguard compliance, construction supervision, and preparation of the Water III (A) Project.
2. Improved Operational Efficiency and Demand Management
  - (a) Reduction of non-revenue water by improving the meter reading/billing chain, upgrading meter testing facilities, installing production meters, repairing/replacing service meters, fixing leaks in service connections and distribution piping, retrofitting water conservation devices in public buildings, and procuring equipment and vehicles for leak detection crews.
  - (b) Improvement of system management by sub-system isolation, installation of zonal meters, completion of the network GIS, and hydraulic modeling.

- (c) Management support and capacity building in catchment protection, demand management, distribution management, and non-revenue water reduction.

3. Institutional Support

Provision of technical assistance to refine operational policy and the legal framework for urban water supply and sanitation, including governance, autonomy, stakeholder consultation, and private sector participation.

4. Project Management

Provision of office equipment, operations support, project audit, as well as management support and capacity building in monitoring and evaluation, safeguard compliance, and refinement of the Project Implementation Manual.

Part B: Secondary Cities Water Supply and Sanitation

1. Increased Access to Water Supply and Sanitation

- (a) Development of springs and boreholes, rehabilitation of dams and intakes, protection of reservoir catchments, rehabilitation and expansion of treatment plants and transmission mains.
- (b) Extension of the primary and secondary distribution network into unserved areas. Development of a community water supply and sanitation strategy; and provision of tertiary distribution, residential connections, and public sanitation facilities in low income areas.
- (c) Construction of sludge drying beds, provision of equipment, spares and rolling stock for sludge removal services.
- (d) Provision of consulting services for planning, design, safeguard compliance, and construction supervision.

2. Improved Operational Efficiency and Demand Management

- (a) Reduction of non-revenue water by improving the meter reading/billing chain, upgrading meter testing facilities, installing production meters, repairing/replacing service meters, fixing leaks in service connections and distribution piping, retrofitting water conservation devices in public buildings, and procuring equipment and vehicles for leak detection crews.

- (b) Improving system management by sub-system isolation, installation of zonal meters, development of a network GIS, and hydraulic modeling. Management support and capacity building in catchment protection, demand management, distribution management, and non-revenue water reduction.

3. Institutional Support

Provision of technical assistance to refine operational policy and the legal framework for urban water supply and sanitation, including governance, autonomy, stakeholder consultation, and private sector participation.

4. Project Management

Provision of office equipment, operations support, project audit, as well as management support and capacity building in monitoring and evaluation, safeguard compliance, and refinement of the project implementation manual.

Part C. Program Management

1. Support to National and Regional Program Coordination Units

Provision of equipment, operational costs, practitioners workshops, study visits, and technical assistance for capacity building in billing and collection, distribution management, non-revenue water reduction, monitoring and evaluation, safeguard compliance, and refinement of the Project Implementation Manual.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Overall Institutional Arrangements

The Recipient shall ensure the carrying out by the following institutions of responsibilities for project implementation described herein below:

- (a) Ministry of Water Resources (MWR). The MWR through its PCU to be responsible for overall coordination and monitoring and evaluation of the Project, facilitation of capacity building, and policy formulation for the Project and the Program. Its Water Resources Development Fund to be responsible for coordinating the Recipient's on-lending program for urban water supply and sanitation.
- (b) Regional Water Resources Development Bureaus (RWBs). The RWBs to be responsible for overall Program planning, management, coordination and capacity building at the regional level. The RWBs to facilitate: (i) the arranging of necessary technical assistance to enable the Secondary Cities to meet the qualifying criteria for financing under the Project; and (ii) the appraisal of city business plans and designs.
- (c) City Administration. The City Administration to be responsible for: (i) appointing the Water Board Chairperson and other members according to the provisions of the relevant enabling Proclamation; and (ii) approving investment plans and tariff adjustments.
- (d) Water Boards (WBs). Water Boards to be responsible for overseeing the planning and management of city water supply and sanitation systems. WBs to enter into performance agreements or contracts with water utilities, which shall be responsible for normal operation and maintenance and for securing supplemental professional services to assist water utilities to improve efficiency and expand the system over time.
- (e) Water Utility. Water utility managers and staff to be accountable to the corresponding WB under a performance agreement or contract for the operation and maintenance of the city water supply and sanitation system.



**B. Implementation Arrangements for Part A of the Project - AAWSA**

To facilitate the carrying out of Part A of the Project, the Recipient shall:

- (a) make available to AAWSA, the portion of the proceeds of the Financing set forth from time to time in Categories (1)(a), (2)(a), (3)(a) and (4)(a) of the table in Schedule 2, Section IV A.2 of this Agreement, under an agreement (the Subsidiary Agreement) between the Recipient and AAWSA, under terms and conditions acceptable to the Association;
- (b) exercise its rights under the AAWSA Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing; and
- (c) except as the Association shall otherwise agree, not assign, amend, abrogate or waive the AAWSA Subsidiary Agreement or any of its provisions.

**C. Implementation Arrangements for Part B of the Project - Secondary Cities**

The Recipient shall ensure that the Secondary Cities Project activities are approved by MWR in accordance with criteria, procedures, and under financing terms and conditions set forth in the Project Implementation Manual.

**D. Safeguards**

The Recipient shall ensure that, prior to authorizing the commencement by any Project implementing agencies of any Project activities likely to have detrimental environmental or social impacts, an appropriate environmental impact assessment shall have been undertaken, and that in the case of the identified environmental or social risks relating to Project activities to be undertaken, likewise in the case of any displacement of persons or expropriation of property, appropriate action plans are adopted and carried out, all in accordance with the provisions of the ESMF and RPF.

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

**A. Project Reports**

- 1. (a) The Recipient shall monitor and evaluate the progress of the Project, or cause to be monitored and evaluated, and shall prepare Project Reports, or cause to be prepared, in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of six calendar

months, and shall be furnished to the Association not later than forty-five days after the end of the period covered by such report.

- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

<b>Project Outcome Indicators</b>	<b>Target</b>
Additional number of people with new or improved water supply (million)	1m new 3m improved
No. of people with improved sanitation (million)	0.5
<b>Intermediate Outcome Indicators</b>	
<b>Part A. Addis Ababa Water Supply and Sanitation</b>	
Added volume of water produced (m <sup>3</sup> /day)	100,000
Number of new connections	40,000
Number of rehabilitated connections	20,000
Hours per day of supply, based on weighted average of connections	16
Ratio of operating revenues/expenses	1.1
Number of people with improved sanitation in low-income areas (million)	0.3
<b>Part B. Secondary Cities Water Supply and Sanitation</b>	
Added volume of water produced (m <sup>3</sup> /day)	20,000
Number of new connections	25,000
Number of rehabilitated connections	10,000
Hours per day of supply	16
Ratio of operating revenues/expenses	1.1
Number of people with improved sanitation in low-income areas (million)	0.2

**B. Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. The Recipient shall prepare and furnish to the Association, or cause to be prepared and furnished, 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.
3. The Recipient shall cause the Financial Statements to be 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 and National Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International or National Competitive Bidding. National Competitive Bidding (NCB) shall follow the Recipient's procurement procedures, subject to the following additional procedures: (i) standard bid documents for procurement of goods and works shall be used; (ii) if pre-qualification is used, the Bank's standard bidding 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) foreign bidders shall not be excluded from participation; and (vi) results of evaluation and award of contract shall be made public.

2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International/National Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

<b>Procurement Method</b>
(a) Direct Contracting
(b) Shopping
(c) Force Account

**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.

<b>Procurement Method</b>
(a) Quality-based selection
(b) Selection based on consultants' qualifications
(c) Single source selection
(d) Selection of particular types of consultants
(e) 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 Credit and of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

	<b>Category</b>	<b>Amount of the Credit Allocated (Expressed in SDR)</b>	<b>Amount of the Grant Allocated (Expressed in SDR)</b>	<b>Percent of expenditures to be financed</b>
(1)	Works and Goods			
	(a) for Part A - AAWSA	27,700,000	10,140,000	100%
	(b) for Part B - Secondary Cities	14,330,000	3,560,000	100%
(2)	Consultants			
	(a) for Part A - AAWSA	910,000	5,390,000	100%
	(b) for Part B - Secondary Cities	90,000	1,450,000	100%
	(c) for Part C - MWR	0	170,000	100%
(3)	Training			
	(a) for Part A - AAWSA	0	0	100%
	(b) for Part B - Secondary Cities	0	14,000	100%
	(c) for Part C - MWR	0	210,000	100%

	<b>Category</b>	<b>Amount of the Credit Allocated (Expressed in SDR)</b>	<b>Amount of the Grant Allocated (Expressed in SDR)</b>	<b>Percent of expenditure to be financed</b>
(4)	Operating Costs			
	(a) for Part A - AAWSA	0	270,000	100%
	(b) for Part B - Secondary Cities	0	11,000	100%
	(c) for Part C - MWR	0	310,000	100%
(5)	Unallocated	670,000	1,975,000	
	<b>TOTAL</b>	43,700,000	23,500,000	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
  - (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed \$10 million equivalent may be made for payments made prior to this date but on or after April 1, 2007, for Eligible Expenditures under Categories 1 and 2.
2. The Closing Date is December 31, 2012.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable  (expressed as a percentage)*</b>
On each April 15 and October 15:	
Commencing October 15, 2017, to and including April 15, 2027.	1%
Commencing October 15, 2027, to and including April 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. “*Birr*” means the currency of the Recipient.
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, revised October 2006.
4. “ESMF” means the Environmental and Social Management Framework prepared by the Recipient for the purpose of implementing the Project and published on February 14, 2007.
5. “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section II.B.2 of Schedule 2 of this Agreement.
6. “Fiscal Year” and “FY” mean the Recipient’s fiscal year beginning July 8 and ending July 7 of the next calendar year.
7. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005, as amended through October 2006.
8. “MoFED” means the Recipient’s Ministry of Finance and Economic Development.
9. “MWR” means the Recipient’s Ministry of Water Resources.
10. “Proclamation” means enactment of the federal or regional parliaments, city councils or cabinets, or the executive branch of the government at any level, having the force of law pursuant to the Recipient’s laws.
11. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, revised October 2006.
12. “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.
13. “Program” means the program designed to support the water supply sector in Ethiopia and set forth or referred to in the letter dated February 23, 2007, from the Recipient to the Association.



14. “Project Coordination Unit” and “PCU” mean the unit established for the coordination of activities to be carried out under the Project, as referred to in Section I.A of Schedule 2 to this Agreement.
15. “Project Implementation Manual” means the manual referred to in Section 5.01 (a) of this Agreement consisting of different modules setting out respectively, *inter alia*, the administrative, financial and accounting procedures; the procurement and disbursement procedures; eligibility criteria for AAWSA, city water boards and water utilities operators; the terms and conditions for related grant agreements and financing agreements, including procurement and accounting procedures; 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, and such term to include city specific schedules to the Project Implementation Manual that will be prepared by the individual cities after effectiveness of this Agreement.
16. “Region” means either an administrative area or city administration within the Borrower’s territory as defined under the Recipient’s Constitution.
17. “Regional Water Resources Development Bureau” and “RWB” means an entity responsible under the Project at the regional level for: (i) providing technical assistance to, and monitoring and evaluation of participating Water Boards and Water Utilities; and (ii) overall coordination of urban water supply activities in the Region.
18. “RPF” means the Resettlement Policy Framework, prepared by the Recipient for the purpose of implementing the Project, and disclosed to the public on February 14, 2007.
19. “Secondary Cities” means cities selected by the Recipient for participation in Part B of the Project, in conformity with criteria set forth in the Project Implementation Manual.
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 part of the proceeds of the Financing available to AAWSA.
21. “Water Resources Development Fund” and “WRDF” means an entity established by Proclamation No. 268/2002 of the Borrower, dated January 31, 2002, which is responsible under the Project for appraising and determining the eligibility of Secondary Cities for financing under the Project.
22. “Water Boards” means autonomous legal entities established by beneficiary city administrations under Part A or B of the Project, responsible under the Project for planning and managing water supply systems and to which a grant or a subloan is subsequently made or proposed to be made, utilizing the proceeds of the Financing, under Part A or B of the Project.
23. “Water Utility” means the Water Board, manager and staff of the water utility.