

CONFORMED COPY

CREDIT NUMBER 4200-ET

Financing Agreement

(Electricity Access (Rural) Expansion Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 7, 2006

CREDIT NUMBER 4200-ET

FINANCING AGREEMENT

AGREEMENT dated August 7, 2006, between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”).

WHEREAS, the Recipient has satisfied itself as to the feasibility and priority of the Project described in schedule 1 to this Agreement;

WHEREAS, 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 the Financing 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 ninety-two million eight hundred thousand Special Drawing Rights (SDR 92,800,000) (“Credit”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

- 2.05. The Payment Dates are June 15 and December 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 3 to this Agreement.
- 2.07. The Payment Currency is Dollars.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. 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.
- 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:

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.

- 4.02. The Additional Event of Acceleration consists of the following:

The event specified in 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.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:

- (a) The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity in form and substance satisfactory to the Association.
 - (b) The Project Implementing Entity has appointed a monitoring and evaluation coordinator and an accountant, within the UEAP Office, each with qualifications, experience and terms of reference acceptable to the Association.
 - (c) The Project Implementing Entity has established, within the UEAP Office, a monitoring and evaluation unit, with terms of reference satisfactory to the Association, and competent staff in adequate numbers.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
- 5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under Articles 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 of 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

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 DEMOCRATIC REPUBLIC OF ETHIOPIA

By: /s/ Ato Mekonnen Manyazewal
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Herbert Acquay
Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to support the Recipient's efforts towards the sustainable expansion of access to electricity in rural towns and villages.

The Project consists of the following parts:

Part 1. Supporting Rural Town and Village Electrification

Supporting the expansion of rural electrification through:

- (a) Connection of about 400 rural towns and villages (with about 1,000,000 inhabitants) to the interconnected EEPCo grid, including: (i) upgrading about 17 grid substations; (ii) drawing sufficient power lines to electrify the towns; and (iii) installation of distribution networks in the towns and villages;
- (b) Connection of at least 150,000 household and other customers in the rural towns and villages electrified under paragraph (a) above;
- (c) Installation of efficient public street lighting in about 300 of the rural towns and villages electrified under paragraph (a) above; and
- (d) Distribution of about 200,000 compact fluorescent lamps to customers in electrified rural areas.

Part 2. Capacity Building to Support Enhanced Electrification of Rural Towns and Villages

Strengthening the capacity building of the Project Implementing Entity and UEAP to enhance the effectiveness of electrification of rural towns, including:

- (a) Provision of logistical support to the UEAP office through the acquisition of, *inter alia*, office equipment and vehicles to strengthen capacity in areas of inspection, monitoring, client support and other operational activities for electrified rural towns.
- (b) Carrying out studies and provision of technical assistance, including consultancy services and training, for:

- (i) strengthening the planning, design, execution and supervision of grid extension to rural towns and villages, and strengthening the ability of the UEAP Office to incorporate lessons learned;
- (ii) assessing the barriers to electricity connection for the poor and assessing opportunities, through tariff restructuring, to provide effective targeting of subsidies to the poor;
- (iii) economic and financial analysis of UEAP's programs;
- (iv) strengthened compact fluorescent lamps delivery mechanisms; and
- (v) monitoring and evaluation of the Project.

SCHEDULE 2

Project Execution

Section I. Subsidiary Financing; Institutional and Other Arrangements

A. Subsidiary Agreement

1. To facilitate the carrying out of the Project by the Project Implementing Entity, the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity, on a grant basis, under a Subsidiary Agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association.
2. The Recipient shall exercise its rights under the Subsidiary Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive the Subsidiary Agreement or any of its provisions.

B. Institutional Arrangements

The Recipient shall maintain, with financial resources, competent staff in adequate numbers, and with qualifications and experience satisfactory to the Association: (a) EEPCo as Project Implementing Entity, with the overall responsibility for coordination and oversight of the Project; and (b) the UEAP Office, within the EEPCo, as project implementation unit with the responsibility for implementation of the Project.

C. ESMF and RPF

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 ESMF and the RPF and in a manner satisfactory to the Association; and (ii) maintain an environmental management unit with responsibility for implementing the ESMF and RPF for all 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 ESMF and the RPF referred to in sub-paragraph (1) of this paragraph or any provision thereof.

3. In case of any conflict between the terms of the ESMF and the RPF 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

The Recipient shall cause the Project Implementing Entity to monitor and evaluate the progress of the Project and to prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth in the Project Agreement. Each Project Report shall cover the period of six months, and shall be furnished to the Association not later than one month after the end of the period covered by such report.

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

Section III. Procurement

A. General

1. **Goods.** All goods 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 Schedule.
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 Schedule.
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

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods 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. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Method
(a) National Competitive Bidding
(b) Shopping
(c) Direct Contracting
(d) Procurement from UN Agencies

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) Fixed Budget Selection
(b) Single Source Selection
(c) Individual Consultants
(d) Least Cost Selection
(e) Selection Based on Consultants' Qualifications

D. Review by the Bank 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 this Section and such additional instructions as the Bank may specify by notice to the Recipient, 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
(1) Goods		100% of Foreign Expenditures and 85% of Local Expenditures
(a) for Part 1(a) of the Project	69,440,000	
(b) for Part 1(b) of the Project	6,580,000	
(c) for Part 1(c) of the Project	850,000	
(d) for Part 1(d) of the Project	710,000	
(e) for Part 2 of the Project	940,000	
(2) Consultant Services (including training) for Part 2 of the Project	1,850,000	100%
(3) Unallocated	12,430,000	
TOTAL AMOUNT	92,800,000	

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, except that withdrawals up to an aggregate amount not to exceed US\$12,000,000 equivalent may be made for payments made prior to this date but on or after May 1, 2006, for Eligible Expenditures under Categories (1) and (2).

2. The Closing Date is December 31, 2009.

Section V. Other Undertakings

- A. The Recipient shall prepare, by no later than October 31, 2006, an integrated grid/off-grid electrification plan for rural towns and other rural areas, in form and substance satisfactory to the Association.

- B. The Recipient shall contribute to the Project Implementing Entity's funding, including the proceeds of the Financing under this Agreement, for not less than 80% of the capital costs of the Project and of the UEAP.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each June 15 and December 15:	
commencing December 15, 2016 to and including June 15, 2026	1%
commencing December 15, 2026 to and including June 15, 2046	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. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
2. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004.
3. “EEPCo” means the Ethiopian Electric Power Corporation, established pursuant to the Recipient’s Council of Minister’s Regulation No. 18/1997 of July 7, 1997 (EEPCo Regulation).
4. “ESMF” means the Recipient’s Environmental and Social Management Framework document dated February 2006 referred to in paragraph C of Section I of Schedule 2 to this Agreement, setting forth, *inter alia*, guidelines, procedures, timetable and other specifications designed to offset adverse environmental and social impacts related to Project activities, or to reduce them to acceptable levels, or to enhance positive impacts.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
6. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004.
7. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated April 27, 2006 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.
8. “Project Implementing Entity” means EEPCo.
9. “Project Implementing Entity’s Legislation” means the EEPCo Regulation No. 18/1997 of July 7, 1997 of the Recipient, and Proclamation No. 90/203 of the Recipient, as the same shall have been amended to the date of this Agreement.
10. “RPF” means the Resettlement Policy Framework of the Recipient dated February 2006 setting forth, *inter alia*, guidelines, procedures, timetable and

other specifications of the resettlement/compensation to be made under the Project to Affected Persons and referred to in paragraph C of Section I of Schedule 2 to this Agreement.

11. “Subsidiary Agreement” means the agreement referred to in Section I.A of Schedule 4 to this Agreement pursuant to which the Recipient shall make the proceeds of the Financing available to the Project Implementing Entity.
12. “UEAP” means the Universal Electricity Access Program.
13. “UEAP Office” means the UEAP Office established within EEPCo for purposes of managing the implementation of the UEAP, including the activities to be carried out under this Project.