

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H356-DJ

Financing Agreement

(Djibouti Urban Poverty Reduction Project)

between

REPUBLIC OF DJIBOUTI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 5, 2008

GRANT NUMBER H356-DJI

FINANCING AGREEMENT

AGREEMENT dated June 5, 2008, entered into between REPUBLIC OF DJIBOUTI (“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 grant in an amount equivalent to one million nine hundred thousand Special Drawing Rights (SDR 1,900,000) (“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 Payment Dates are April 1st and October 1st in each year.
- 2.05. The Payment Currency is Dollar.

ARTICLE III - PROJECT

- 3.01. The Recipient declares its commitment to the objective 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 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 Event of Suspension consists of the following: namely that the Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project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: namely that the event specified in Section 4.01 of this Agreement occurs.

ARTICLE V - EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness consist of the following:
 - (a) The Subsidiary Agreement, satisfactory to the Association, has been executed on behalf of the Recipient and the Project Implementing Entity.
 - (b) The Project Implementing Entity has adopted the Operational Manual satisfactory to the Association.
 - (c) The Recipient has established by Decree the Board of Directors of the Project Implementing Entity as per the provisions of the Project Implementing Entity's Legislation and in a manner satisfactory to the Association.

- (d) The Project Implementing Entity has employed the heads of its Administration and Finance, Infrastructure, and Social Development Departments.
 - (e) The Project Implementing Entity has established an accounting and financial management system for the Project, satisfactory to the Association.
 - (f) The Project Implementing Entity has prepared the technical studies and bidding documents for all activities to be carried out under the Project during the first twelve (12) months of Project implementation.
- 5.02. The Additional Legal Matter consists of the following: namely 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 one hundred twenty (120) days 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.
- 6.02. The Recipient's Address is:

Ministère de l'Economie, des Finances et de la
Planification chargé de la Privatisation
B.P. 13
Djibouti City
Republic of Djibouti

Facsimile:

253-35-65-01

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 Sharm El-Sheikh, Arab Republic of Egypt, as of the day and year first above written.

REPUBLIC OF DJIBOUTI

By /s/ Simon Mibrathu

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Emmanuel Mbi

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to increase access to basic economic and social infrastructure and to community development opportunities within Quarter 7 in the city of Djibouti.

The Project consists of the following parts:

Part I: Improvement of Infrastructure

1. Rehabilitation and surfacing of about 1.5 km of streets, including street lighting.
2. Construction of two lateral drainage channels and improvement of individual sanitation systems along the same about 1.5 km of streets.
3. Carrying out the design, construction and equipment of a Community Development Center.
4. Rehabilitation of selected public spaces, including a public garden.

Part II: Community Development

1. Financing of Community Subprojects through Community Subproject Grants to Beneficiary Community Associations.
2. Support to local communities through the financing of, inter alia: (i) activities in favor of local environment quality; (ii) vocational training activities; (iii) literacy campaigns; and (iv) activities to support women and youth communities.

Part III: Technical Assistance

1. Provision of technical advisory services for: (i) the preparation of technical studies and bidding documents for civil works to be carried out under Parts I and II of the Project; (ii) the supervision of the carrying out of such civil works; (iii) potential and actual Beneficiary Community Associations for the preparation and implementation of the Community Subprojects; and (iv) Project implementation in general.
2. Provision of Training to the staff of the Project Implementing Entity.
3. Carrying out audits and various studies for the Project.

4. Support to the Project Implementing Entity through: (i) the financing of the Project Implementing Entity's Fees; and (ii) the acquisition of a management information system.

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

A. Institutional Arrangements. The Recipient shall ensure that the Project Implementing Entity is maintained with adequate staff and resources, in a manner satisfactory to the Association and as specified in Section I.A of the Schedule to the Project Agreement.

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 on a grant basis under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association, (“Subsidiary Agreement”). The Subsidiary Agreement shall also specify the terms and conditions for the delegated management of the Project by the Project Implementing Entity on behalf of the Recipient.

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 cause the Project Implementing Entity to: (i) carry out the Project in accordance with the Operational Manual, the Project EIAs and the Project EMPs, and not amend, suspend, abrogate, repeal or waive any provision of the Operational Manual, the Project EIAs and the Project EMPs, without prior approval of the Association; and (ii) include adequate information on the implementation of the Project EIAs and the Project EMPs in the Project Reports referred to in Section II.A of this Schedule.

2. The Recipient shall ensure that all measures identified and described in the Project EMPs are taken in a timely manner.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. The Recipient shall monitor and evaluate the progress of the Project and cause the Project Implementing Entity to 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 shall cover the period of one calendar quarter, and shall be furnished to the Association not later than forty five (45) days after the end of the period covered by such report.
2. Without limitation on the provisions in paragraph 1 of this Sub-Section A, the Recipient shall review with the Association, nineteen (19) months after the Effective Date or such later date as the Association shall determine, the report referred to in paragraph 2 (a) of Section II.A of the Schedule to the Project Agreement.

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. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association as part of the Project Report not later than forty five (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 have the 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 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 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) Shopping
(c) Direct Contracting
(c) Community Participation procedures described in the Operational Manual

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) Selection under a Fixed Budget
(b) Least Cost Selection
(c) Selection based on Consultants' Qualifications
(d) Single-source Selection
(e) 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

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 Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Financing Allocated (expressed in SDR)	Percentage of Expenditures to be Financed (exclusive of Taxes)
(1) Goods, works and consultants' services for Part I of the Project	1,080,000	100%
(2) Community Subproject Grants for Part II.1 of the Project, and goods, works, consultants' services and Training for Part II.2 of the Project	220,000	100% of amounts disbursed for Community Subproject Grants, and 100% for all other expenditures
(3) Consultants' services (including audits) and Training for Part III of the Project	190,000	100%
(4) Project Implementing Entity's Fees	120,000	100%
(5) Unallocated	290,000	
TOTAL AMOUNT	1,900,000	

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 SDR 50,000 equivalent may be made for payments made prior to this date but on or after April 1st, 2008, for Eligible Expenditures under Category (3).
2. The Closing Date is May 31, 2012.

APPENDIX**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. “Beneficiary Community Association” means a community established as an association under the laws of the Recipient, and determined to be eligible for a Community Subproject Grant in accordance with the eligibility criteria specified in Section I.C of the Schedule to the Project Agreement and in the Operational Manual and to whom or for whose benefit a Community Subproject Grant is made or proposed to be made.
3. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
4. “Community Subproject” means an activity carried out or to be carried out by a Beneficiary Community Association consisting in the financing of: (i) activities in favor of local environment quality; (ii) vocational training activities; (iii) literacy campaigns; (iv) activities to support women and youth communities; and (v) any other type of community activities with the prior approval of the Association.
5. “Community Subproject Grant” means a grant made or proposed to be made by the Project Implementing Entity to a Beneficiary Community Association for the purposes of financing a Community Subproject under Part II.1 of the Project.
6. “Community Subproject Grant Agreement” means an agreement between the Project Implementing Entity and a Beneficiary Community Association setting forth the terms and conditions under which a Community Subproject Grant shall be made available to the Beneficiary Community Association for the purpose of financing a Community Subproject under Part II.1 of the Project.
7. “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.
8. “Djiboutian Franc” means the currency of the Recipient.
9. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).

10. “Operational Manual” means the manual describing procedures for implementation of the Project, consistent with the provisions of this Agreement and the Project Agreement and including, inter alia: (i) procedures governing administrative, procurement, accounting, financial management, including adequate measures for procurement and forensic audits, and monitoring and evaluation arrangements; (ii) arrangements and criteria for identification, selection and implementation of Community Subprojects; (iii) safeguard arrangements, including environmental assessment methodology and mechanism for resettlement of displaced people; and (iv) sample formats for required Project reports.
11. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006.
12. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 12, 2008 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. “Project EIA” means an environmental impact assessment to be prepared, as the case may be, by the Project Implementing Entity and satisfactory to the Association, in respect of activities under Parts I and II of the Project, and as required by Section I.D.1 of the Schedule to the Project Agreement.
14. “Project EMP” means an environmental management plan to be prepared, as the case may be, by the Project Implementing Entity and satisfactory to the Association, in respect of activities under Parts I and II of the Project, and as required by Section I.D.2 of the Schedule to the Project Agreement, describing the environmental issues, mitigation, monitoring and institutional measures for such activities.
15. “Project Implementing Entity” means Agence Djiboutienne de Développement Social.
16. “Project Implementing Entity’s Fees” means the fees covering the costs incurred by the Project Implementing Entity in the administration and management of the Project, on behalf of the Recipient as set forth in the Subsidiary Agreement.
17. “Project Implementing Entity’s Legislation” means the Recipient’s Law No. 211 creating Agence Djiboutienne de Développement Social dated December 27 , 2007, published in the Borrower’s Official Gazette No. 24 dated December 31, 2007, and the Recipient’s Decree No. 2008-0026/PR regarding the special status of Agence Djiboutienne de Développement Social dated January 20, 2008, published in the Borrower’s Official Gazette No. 2 dated January 31, 2008 .

18. “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.
19. “Training” means training activities (other than consultants’ services) to be carried out under the Project, as approved by the Association on the basis of annual training, workshop and study tour plans acceptable to the Association, including transport and accommodation costs and per diem for trainees, trainers and workshop attendees, trainer fees, rental of facilities and equipment, training materials and related supplies.