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**CREDIT NUMBER 4867 - ET**  
**GRANT NUMBER H643 - ET**

# **Financing Agreement**

**(Additional Financing to Protection of Basic Services Program – Phase II Project)**

**between**

**FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated March 10, 2011**

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**CREDIT NUMBER 4867 - ET**  
**GRANT NUMBER H643 - ET**

## **FINANCING AGREEMENT**

AGREEMENT dated March 10, 2011 between the FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (“Recipient”) and the 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 the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Original Financing Agreement 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 thirteen million seven hundred thousand Special Drawing Rights (SDR 113,700,000) (variously, “Credit” and “Financing”) and a grant in an amount equivalent to one hundred sixty-one million seven hundred thousand Special Drawing Rights (SDR 161,700,000) (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 II 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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 the Dollar.

**ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objective of the Project and the Program. To this end, the Recipient shall carry out Parts 1 and 4 of the Project through MOFED, Part 2 of the Project through MOH, Part 3 through MOFED in collaboration with MCS, the PPPA and the CSA, 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**

- 4.01. The Additional Event of Suspension consists of the following, 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 — EFFECTIVENESS; TERMINATION**

- 5.01. The Additional Condition of Effectiveness consists of the following: namely, the Recipient has revised the Operations Manual in the part pertaining to activities under Subprogram C(i), substantially in form and substance satisfactory to the Association.
- 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 this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. The Recipient's Representative is its Minister at the time in charge 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

Telex:	Facsimile:
21147	(251-11) 1551355

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)	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/ Sufian Ahmed  
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

/s/ Kenichi Ohashi  
Authorized Representative

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to contribute to expanding access and improving the quality of basic services in education, health, agriculture, water supply and sanitation, and rural roads delivered by Sub-national Governments, while continuing to deepen transparency and local accountability in service delivery.

The Project consists of the parts of the Original Project described in Schedule 1 of the Original Financing Agreement.

## **SCHEDULE 2**

### **Project Execution**

#### **Section I. Institutional and Other Arrangements**

##### **A. General**

1. The following sections of the Original Financing Agreement are hereby incorporated by reference in this Part A of this Section I and shall apply, mutatis mutandis, to this Agreement: Parts A, B, C, and D of Section I of Schedule 2 (Institutional and Other Arrangements); Part F of Section I of Schedule 2 (Environmental and Social Safeguards); Section II of Schedule 2 (Project Monitoring, Reporting, Evaluation); and Section III (Procurement) of Schedule 2.

##### **B. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

#### **Section II. 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 the Grant, respectively, to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Categories	Amount of the Credit Allocated (expressed in SDR)	Amount of the Grant Allocated (expressed in SDR)	% of expenditures to be financed
1. Subprogram A(i)	113,700,000	153,700,000	Such percentage of Eligible Expenditures as the Association may determine for each six monthly period of the EFY
2. Subprogram A(ii)	0	0	Such percentage of Eligible Expenditures as the Association may determine for each six monthly period of the EFY
3. Subprogram B	0	8,000,000	Such percentage of Eligible Expenditures as the Association may determine for each six monthly period of the EFY
4. Subprogram C	0	0	Such percentage of Eligible Expenditures as the Association may determine for each six monthly period of the EFY
5. Subprogram D	0	0	Such percentage of Eligible Expenditures as the Association may determine for each six monthly period of the EFY
4. Unallocated	0	0	
<b>TOTAL</b>	<b>113,700,000</b>	<b>161,700,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:

- (a) for payments in respect of expenditures incurred prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed the equivalent of eighty-four million Dollars (\$84,000,000) may be made in respect of Eligible Expenditures incurred under Category (1), for payments made for Subprogram A(i) expenditures prior to this date but on or after July 7, 2010;
- (b) under Category (1), unless the Association has confirmed in writing that: (A) the annual sub-national budget for basic services comprising the relevant Subprogram A(i) expenditures, satisfactory to the Association, has been delivered to the Association; (B) the relevant JBAR and JRIS have concluded successfully, in the opinion of the Association, enabling a determination of the appropriate percentage of expenditures to be financed, taking into account the Pooled Funding A Partners' assessment of the Recipient's performance under the Project (the SAFE performance assessment); and (C) satisfactory interim financial reports, prepared for two successive quarters in accordance with the provisions of Section II.B.2(a) of Schedule 2 to the Original Financing Agreement, relating to the Subprogram A(i) expenditures for the relevant Project period, have been delivered to the Association;
- (c) under Category (2), unless the Association has confirmed in writing that a satisfactory interim financial report, prepared in accordance with the provisions of Section II.B.2(a) of Schedule 2 to the Original Financing Agreement, for the LIG component expenditures under Subprogram A(ii), and relating to the relevant Project period, has been delivered to the Association; and
- (d) under Categories (3), (4) or (5), unless the Association has confirmed in writing that: (A) the annual work plans for Subprogram B, Subprogram C, and Subprogram D, respectively, satisfactory to the Association, have been delivered to the Association; and (B) satisfactory interim financial reports, prepared in accordance with the provisions of Section II.B.2(a) of Schedule 2 to the Original Financing Agreement, for the expenditures under the relevant Subprogram, and relating to the relevant Project period, have been delivered to the Association.

2. The Closing Date is January 7, 2013.

### **Section III. Other Undertakings**

1. The Recipient shall:

- (a) maintain, or renew, in accordance with the provisions of Section III of Schedule 2 to the Original Financing Agreement, during the



implementation of the Project, all such additional staff within its agencies, as have been agreed to be recruited in accordance with the provisions of paragraph 1(a) of Section V of Schedule 2 to the Original Financing Agreement to be assigned to support the COPCU; EMCP; BoFEDs; the General Directorate for Policy Planning and Finance, as well as the Program Based Audit Office, both of the MOH; public procurement agencies at the Federal and Regional levels; and PFSA, all with such authority and with qualifications and under terms of reference as shall be at all times satisfactory to the Association;

- (b) ensure that the plan for roll-out of the social accountability activities under the Program will be maintained by the PBS Social Accountability Steering Committee, and that the corresponding activities are undertaken in a timely manner;
- (c) by April 30, 2011, carry out a follow-up study to monitor improvements in financial transparency and accountability, based on the Woreda city benchmarking survey undertaken on financial transparency and accountability under the auspices of MCS; and
- (d) by April 30, 2012, carry out under terms of reference satisfactory to the Association, by duly qualified auditors acceptable to the Association, retained in accordance with the provisions of Section III of this Schedule 2, an independent procurement audit for all expenditures financed under the Project, and furnish a report to the Association thereon of such scope and detail as the Association shall request.

#### **Section IV. Amendment to the Original Financing Agreement**

The Original Financing Agreement is hereby amended as follows:

- (a) “Federal Procurement Agency” in the Original Financing Agreement shall be replaced by “PPPA”.
- (b) “Ministry of Capacity Building” or “MCB” in the Original Financing Agreement shall be replaced with “Ministry of Civil Service” or “MCS”.
- (c) “Reform Support Unit” or “RSU” of the Original Financing Agreement shall be replaced with “Channel One Programs Coordinating Unit” or “COPCU”.
- (d) The Closing Date stated in Section IV.B.2 of Schedule 2 of the Original Financing Agreement shall be January 7, 2013.
- (e) Schedule 2, Section II. A. 2(e) and (f) shall be deleted and replaced with the following: “(e) Fifth JBAR in April/May 2011”; “(f) Sixth JBAR in

October/November 2010”; “(g) Seventh JBAR in April/May 2012 and (gh) Eighth JBAR in October/November 2012” .

- (f) Schedule 2, Section II.A.2.b(ii) shall be deleted and replaced with “number of direct beneficiaries and gender parity;”.
- (g) Section II.A.2.b(v) shall be deleted and replaced with “proportion of malfunctioning water supplies;”.
- (h) Section II. A.2.b(vi) shall be deleted and replaced with “number of farmer households getting agricultural extension services;”.
- (i) Paragraph 31 of the Appendix to the Original Financing Agreement is amended by adding the words “or ‘LIG’” following the words “Local Investment Grant”.
- (j) An additional paragraph 71 is added to the Appendix to the Original Financing Agreement to read as follows: “Resettlement Policy Framework” or “RPF” means the instrument prepared by the Recipient, dated August 2007, in form and substance satisfactory to the Association, for use throughout the implementation of the pilot LIG component of the Project, and publicly disclosed in impacted areas, and setting out the resettlement and compensation policy, organizational arrangements and design criteria to be applied to meet the needs of the people who may be affected by activities under Local Investment Grants.

**SCHEDULE 3**

**Repayment Schedule**

<b>Date Payment Due</b>	<b>Principal Amount of the Credit repayable (expressed as a percentage)*</b>
On each May 15 and November 15:	
Commencing May 15, 2021, to and including November 15, 2030	1%
Commencing May 15, 2031, to and including November 15, 2050	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 with the modifications set forth in Section III below.
2. “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 and May 2010.
3. “Channel One Program Coordination Unit” or “COPCU” means the unit in MOFED which will coordinate activities across the basic service ministries and sub-national government entities and oversee the implementation of activities to support the strengthening of Woreda public financial management systems oversee.
4. “Environmental and Social Management Framework” or “ESMF” means the Recipient’s framework, prepared in form and substance satisfactory to the Association, dated August 2007, prepared for purposes of providing guidance for activities financed under Local Investment Grants under the pilot LIG component under Part 1(i) of the Project, describing measures for the mitigation of the potential adverse environmental and social impact of such activities , as the same may be updated from time to time with the concurrence of the Association, and to be applied in accordance with the provisions of paragraph 2 of Section I.F of Schedule 2 to the Original Financing Agreement.
5. “Environmental Management Plan” or “EMP” means an Environmental Management Plan, acceptable to the Association and consistent with the ESMF, adopted for the purposes of an activity financed under a Local Investment Grant under Part 1(i) of the Project, and giving details of the specific actions, measures and policies designed to facilitate the achievement of the objectives of the ESMF under the said activity, along with the procedural and institutional measures needed to implement such actions, measures and policies, as such EMP may be amended from time to time with the prior written agreement of the Association.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010, with the modifications set forth in Section II of this Appendix.
7. “Guidelines for Handling and Disposal of Medical Waste” means the Recipient’s Guidelines describing measures to be taken by health facilities for the prevention of health hazards arising from the improper handling and disposal of medical,

pathological, chemical, infectious, biological or pharmaceutical waste, dated September 1997, and referred to in paragraph 1 of Section I.F of Schedule 2 to the Original Financing Agreement.

8. “Guidelines for Indoor Residual Insecticide Spraying” means the Recipient’s guidelines describing measures to be taken in storing and handling insecticide use for internal spraying, and related training guidelines for staff involved in IRS, revised in April 2007, as the same may be updated from time to time with the concurrence of the Association.
9. “Guidelines for Malaria Vector Control” means the Recipient’s guidelines describing the strategies, activities, and measures to be taken for vector control, based on entomological surveillance/surveys, published on March 2002, as the same may be updated from time to time with the concurrence of the Association.
10. “Health Sector Development Program” or “HSDP” means the Recipient’s Third Health Sector Development Program, dated September 2005, for the period 2005-06 through 2009-10, or any successor thereto for subsequent years during the implementation of the Project.
11. “MCS” means the Recipient’s Federal Ministry of Civil Service, established pursuant to Proclamation No 691/2010 of the Recipient.
12. “Original Financing Agreement” means the financing agreement for the Protection of Basic Services Project between the Recipient and the Association, dated May 16, 2009 as amended in Section IV of Schedule 2 to this Agreement.
13. “Original Project” means the Project described in the Original Financing Agreement.
14. “PBS Social Accountability Steering Committee” means a committee established to oversee implementation of Subprogram C(ii) and chaired by the State Minister of MOFED.
15. “PPPA” means the Public Procurement and Property Administration Agency of the Recipient, established pursuant to the Federal Government Procurement and Property Administration Proclamation of the Recipient No. 649/2009;
16. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October, 2006 and May 2010.
17. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 31, 2009, 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.

## **Section II. Modification to the General Conditions**

The modification to the General Conditions for Credits and Grants of the Association, dated July 31, 2010 is in respect of paragraph (a) of Section 2.05 (*Eligible Expenditures*), which shall hereby be modified as follows:

“(a) the payment is for the reasonable cost of: (i) with respect to Subprogram A(i), operating costs (including salaries of the officials of the Recipient’s civil service, equipment operation and maintenance costs, communication charges, transportation costs, field supervision travel allowances, office supplies, and fuel); (ii) with respect to Subprogram B, goods, consultant services, training, workshop, operating costs (including equipment operation and maintenance costs, communication charges, transportation costs, field supervision travel allowances, office supplies, and fuel), studies, assessments, field supervision travel allowances; (iii) with respect to Subprograms C and D, goods, training and workshops, consultants’ services including audits, and operating costs (including equipment operation and maintenance costs, communication charges, transportation costs, field supervision travel allowances, office supplies, and fuel)”; and (iv) with respect to Subprogram A(ii), goods, works, or services, required for the Project, to be financed out of the proceeds of the Financing and procured, all in accordance with the provisions of the Legal Agreements;”

## **Section III. Modifications to the Anti-Corruption Guidelines**

The modifications to the Anti-Corruption Guidelines are as follows:

1. Section 5 is re-numbered as Section 5(a) and a new Section 5(b) is added to read as follows:

“... (b) These Guidelines also provide for the sanctions and related actions to be imposed by the Bank on Borrowers (other than the Member Country) and all other individuals or entities who are recipients of Loan proceeds, in the event that the Borrower or the individual or entity has been debarred by another financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

2. Section 11(a) is modified to read as follows:

“... (a) sanction in accordance with prevailing Bank’s sanctions policies and procedures (fn13) a Borrower (other than a Member Country) (fn 14) or an individual or entity, including (but not limited to) declaring such Borrower, individual or entity ineligible publicly, either indefinitely or for a stated period of time: (i) to be awarded a Bank-financed contract; (ii) to benefit from a Bank-financed contract, financially or otherwise, for example as a sub-contractor; and

(iii) to otherwise participate in the preparation or implementation of the project or any other project financed, in whole or in part, by the Bank, if at any time the Bank determines (fn 15) that such Borrower, individual or entity has engaged in corrupt, fraudulent, collusive, coercive or obstructive practices in connection with the use of loan proceeds, or if another financier with which the Bank has entered into an agreement for the mutual enforcement of debarment decisions has declared such person or entity ineligible to receive proceeds of financings made by such financier or otherwise to participate in the preparation or implementation of any project financed in whole or in part by such financier as a result of a determination by such financier that the Borrower or the individual or entity has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

Footnotes:

“13. An individual or entity may be declared ineligible to be awarded a Bank financed contract upon completion of sanctions proceedings pursuant to the Bank’s sanctions policies and procedures, or under the procedures of temporary suspension or early temporary suspension in connection with an ongoing sanctions proceeding, or following a sanction by another financier with whom the Bank has entered into a cross debarment agreement, as a result of a determination by such financier that the firm or individual has engaged in fraudulent, corrupt, coercive or collusive practices in connection with the use of the proceeds of a financing made by such financier.”

“14. Member Country includes officials and employees of the national government or of any of its political or administrative subdivisions, and government owned enterprises and agencies that are not eligible to bid under paragraph 1.8(b) of the Procurement Guidelines or participate under paragraph 1.11(c) of the Consultant Guidelines.”

“15. The Bank has established a Sanctions Board, and related procedures, for the purpose of making such determinations. The procedures of the Sanctions Board sets forth the full set of sanctions available to the Bank. In addition, the Bank has adopted an internal protocol outlining the process to be followed in implementing debarments by other financiers, and explaining how cross-debarments will be posted on the Bank’s website and otherwise be made known to staff and other stakeholders.”