

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 4375 - ET

Financing Agreement

**Ethiopia/Nile Basin Initiative
Power Export Project
Ethiopia-Sudan Interconnector**

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 17, 2008

Public Disclosure Authorized



CREDIT NUMBER 4375 - ET

FINANCING AGREEMENT

AGREEMENT dated January 17, 2008, 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 twenty-six million four hundred forty thousand Special Drawing Rights (SDR 26,440,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 April 1 and October 1 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 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 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) The Power Purchase Agreement between EEPCo and NEC shall have failed to enter into effect by September 30, 2008.
- (c) The Operations and Maintenance Agreement between EEPCo and NEC shall have failed to enter into effect by September 30, 2008.
- (d) Any breach of the Construction Agreement, the Operations and Maintenance Agreement and/or the Power Purchase Agreement shall have occurred and is continuing.

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

The events specified in Section 4.01 of this Agreement occur and are continuing for a period of 60 days after notice of any of the events 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; and
 - (b) The Construction Agreement in form and substance satisfactory to the Association shall have been executed on behalf of the Project Implementing Entity and NEC.
- 5.02. The Additional Legal Matter consists of the following:
- 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 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

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)	1-202-477-6391

AGREED at Addis Ababa, 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 promote the Recipient's power export revenue generation capacity through the development of regional trade opportunities in the context of the Nile Basin Initiative regional effort.

The Project consists of the following parts:

Part 1: **Construction of transmission interconnection line between the town of Bahir Dar to Metema (border of Sudan) and Related Facilities**

- (a) Constructing a new 296 km 230 kV transmission line from Bahir-Dar to Metema to connect the Ethiopian and Sudanese transmission systems;
- (b) Extending and rehabilitating substations at Bahir-Dar, Gonder and Shehedi; and
- (c) Installing a fiber optics telecommunications system and supervisory control and tele-control equipment.

Part 2: **Institutional Strengthening and Capacity Building for Regional Development**

- (a) Providing support to the Project Implementing Entity on the implementation and operation of the Ethiopia-Sudan Transmission Line including: (i) providing supervisory engineering support for the transmission line erection activities in Ethiopia and training on transmission and substation operation for the Project Implementing Entity's personnel working on the Ethiopia-Sudan Transmission Line; and (ii) implementing the recommendations of the EMP and RAP.
- (b) Supporting the Recipient's role as a key power exporter in the regional market, including: (i) strengthening the Project Implementing Entity's load dispatch center training program; (ii) strengthening the capacity of the Project Implementing Entity in key areas of power trade; and (iii) supporting the Project

Implementing Entity in promoting new generation schemes for regional exports through competitive processes.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. General

The Recipient shall ensure that the Project Implementing Entity shall not, without the written consent of the Association, abrogate, amend, repeal, suspend, waive or otherwise fail to enforce the provisions of the Construction Agreement, the Operations and Maintenance Agreement and the Power Purchase 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 under a subsidiary loan agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by the Association, which shall include the following:
 - (a) the principal amount of the subsidiary loan shall be repaid by the Project Implementing Entity in Ethiopian Birr to the Recipient in fifteen (15) annual installments over twenty (20) years, including a grace period of five (5) years;
 - (b) the principal amount of the subsidiary loan repayable by the Project Implementing Entity shall be the equivalent in Ethiopian Birr of the value of the currency or currencies withdrawn from the Credit Account, determined as of the date, or respective dates of repayment; and
 - (c) interest shall be charged on the outstanding balance of the subsidiary loan at a rate of six per cent (6%) per annum.
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. Safeguards

1. The Recipient shall ensure that, and cause the Project Implementing Entity to ensure that, the Project is implemented in accordance with the EMP and RAP.
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 EMP and the RAP referred to in paragraph 1 above of this Part C or any provision thereof.
3. In case of any conflict between the terms of the EMP and the RAP referred to in paragraph 1 of this Part C, and those of this Agreement, the terms of this Agreement shall prevail.

D. Others

The Recipient shall:

- (a) no later than November 30, 2008, or any other date agreed with the Association, carry out jointly with the Association, a mid-term review of the progress made in carrying out the Project (“Mid-Term Review”);
- (b) no later than thirty days after the completion of the Mid-Term Review, start to implement the recommendations of the Mid-Term Review as agreed with the Association; and
- (c) the Mid-Term Review shall assess, *inter alia*: (i) the overall progress made during the implementation of the Project; and (ii) the results of the monitoring and evaluation activities.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) The Recipient shall monitor and evaluate the progress of the Project and 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 below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one calendar year, and shall be furnished

to the Association not later than two months 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:
 - (i) construction of the 230kV transmission line from Bahir Dar to Metema;
 - (ii) completion of the substation expansion and rehabilitation and telecommunications system;
 - (iii) volume of power exports/imports between Ethiopia and Sudan; and
 - (iv) revenues for the Project Implementing Entity from the power sales to Sudan.

- 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 3 months after the Closing Date.

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 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 unaudited 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. **Works.** All 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 Works

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

Procurement Method
(a) Limited International Bidding
(b) Shopping
(c) 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) Individual Consultants
(c) Quality Based Selection
(d) Consultants Qualification Selection

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 works estimated to cost the equivalent of \$500,000 or more;
- (b) all contracts procured by means of Direct Contracting;
- (c) each contract for consultants' services estimated to cost the equivalent of \$100,000 or more;
- (d) each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more; and
- (e) all single source selection contracts.

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
(1) Works		
(a) for Part 1 (a) of the Project	15,432,000	100%
(b) Part 1 (b) and (c) of the Project	6,765,000	100%
(2) Consultants’ Services		
(a) for Part 2 (a) of the Project	775,000	100%
(b) Part 2 (b) of the Project	58,000	100%
(3) Unallocated	3,410,000	
TOTAL AMOUNT	26,440,000	

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 \$8,000,000 equivalent may be made for payments prior to this date but on or after January 1, 2008, for Eligible Expenditures under Categories (1) and (2).
2. The Closing Date is December 31, 2011.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each April 1 and October 1:	
commencing April 1, 2018 to and including October 1, 2027	1%
commencing April 1, 2028 to and including October 1, 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

Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
2. “Construction Agreement” means the Agreement to be entered into between the Project Implementing Entity and NEC (both as hereinafter defined) for the purposes of outlining the relation between the two parties as regards: (i) design and construction responsibilities; (ii) objectives of the interconnection; (iii) ownership rights; (iv) financial obligations; and (v) overall administrative framework to monitor and govern the construction contracts between both Parties and their respective contractors and referred to in Section 5.01(b) of 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. “EEPCo” means the Ethiopian Electric Power Corporation, established pursuant to the Recipient’s Council of Ministers Regulation No. 18/1997 of July 7, 1997, and Regulation No. 90/2003, responsible for generation, transmission, distribution and sale of electricity in Ethiopia.
5. “EMP” means the environmental management plan prepared and adopted by the Recipient in January 2007 for the purpose of implementing the Project, 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.
6. “Ethiopian Birr” means the lawful currency of the Recipient.
7. “Ethiopia-Sudan Transmission Line” means the transmission line to be constructed under this Project and referred to in Part 1(a) of the Project.
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005.
9. “Nile Basin Initiative” means the framework launched in February 1999 to provide an institutional mechanism, a shared vision, and a set of agreed policy

guidelines through which the Riparian States (as hereinafter defined) can cooperatively develop the resources of the Nile Basin to fight poverty and promote socio-economic development in the region.

10. “NEC” means the National Electricity Corporation established under the National Electricity Corporation Act 201 and 202 to generate, transmit, distribute and sell electricity in the Republic of Sudan.
11. “Operations and Maintenance Agreement” means the Agreement to be entered into between the Project Implementing Entity (as hereinafter defined) and NEC for the purposes of outlining the organizational structure, roles and responsibilities of the national load dispatch centers and substations in Ethiopia and Sudan.
12. “Power Purchase Agreement” means the Agreement to be entered into between the Project Implementing Entity (as hereinafter defined) and NEC for the purposes of establishing the terms of trade between the two parties including energy export prices and volumes.
13. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004, revised October 2006.
14. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated October 30, 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.
15. “Project Agreement” means the agreement between the Association and the Project Implementing Entity (as hereinafter defined) of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.
16. “Project Implementing Entity” means EEPCo.
17. “Project Implementing Entity’s Legislation” means the Recipient’s Council of Ministers Regulation No. 18/1997 of July 7, 1997, and Regulation No. 90/2003 of the Recipient, as the same shall have been amended to the date of this Agreement.

18. “Project Supervision Consultant” means the consultant to be appointed by the Project Implementing Entity in accordance with Section I.A of the Schedule to the Project Agreement to supervise construction under Part 1 of the Project until completion and commissioning of the Project.
19. “Resettlement Action Plan” or “RAP” means the document prepared and adopted by the Recipient in January 2007, that outlines the principles and procedures to be followed in the event that activities under the Project lead to land acquisition and/or the loss of livelihoods.
20. “Riparian States” means (in alphabetic order), Burundi, Democratic Republic of Congo, Egypt, Ethiopia, Kenya, Rwanda, Sudan, Tanzania and Uganda. Eritrea is currently participating in the Nile Basin Initiative as an observer.
21. “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.