

Public Disclosure Authorized

CONFORMED COPY

GRANT NUMBER H239-ET

Financing Agreement

(Financial Sector Capacity Building Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 7, 2006

Public Disclosure Authorized

GRANT NUMBER H239-ET

FINANCING AGREEMENT

AGREEMENT, dated August 7, 2006, 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 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 grant in an amount equivalent to ten million three hundred thousand Special Drawing Rights (SDR 10,300,000) (“Grant”) 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 1 and October 1 in each year.
- 2.05. 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 Event of Suspension consists 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 - (a) The Project Implementing Entity's Legislation has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Project Implementing Entity to perform any of its obligations under the Project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.
- 4.02. The Additional Event of Acceleration consists of the following:
 - (b) 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

- 5.01. The additional Conditions of Effectiveness are that:
 - (a) The Subsidiary Agreement has been executed on behalf of the Recipient and the Project Implementing Entity.
 - (b) The Project Coordinating Committee (PCC) and a Steering Committee (SC) have been established by the Recipient in accordance with Part B.2 of Section I of Schedule 2 to this Agreement.
 - (c) The Recipient has adopted the Project Operations Manual, in form and substance satisfactory to the Association.

- (d) The Recipient has caused the Project Implementing Entity to recruit specialists including a finance officer, procurement officer, Project officer and an administrative assistant for appropriate training to assist with various aspects of Project implementation, reporting, monitoring and evaluation.

5.02 The Effectiveness Deadline is the date ninety days (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is 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, Ethiopia

Cable:	Telex:	Facsimile:
MINFIN	21147	(251-1) 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 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 assist the Recipient in building the foundation for a more transparent, well governed, well-regulated, and competitive financial sector that allocates resources to the private sector more effectively and efficiently, and ensures better finance for all.

The Project consists of the following parts:

Part 1: NBE Institutional Capacity Building

Strengthening the role of the NBE in the regulation and supervision of financial intermediaries, economic research and the formulation and implementation of monetary policy, through provision of technical assistance, consultants' services, staff training and equipment in the following areas:

- (a) Regulation and supervision of the banking system, including: (i) upgrading prudential regulation and market conduct rules, and their monitoring and enforcement by supervision staff, through better on-site inspection and off-site surveillance; (ii) developing a framework, policies and implementation skills for problem bank resolution and the treatment of depositors; (iii) assisting the move from compliance-based to risk-based supervision, and strengthening the skills of supervisors to undertake risk-based supervision; (iv) upgrading IT capability of the Banking Supervision Department; and (v) strengthening the corporate governance of financial sector institutions.
- (b) Regulation and supervision of the insurance system, including: (i) upgrading prudential regulation and market conduct rules, and their monitoring and enforcement by supervision staff through better on-site and off-site surveillance; (ii) assisting the move from compliance-based to risk-based supervision; (iii) developing a technical library for insurance supervision; and (iv) upgrading IT capability in the Insurance Supervision Department.
- (c) Economic research, policy formulation and implementation focusing, *inter alia*, on: (i) monetary policy and liquidity forecasting; (ii) financial market development; (iii) macroeconomic modeling and analysis; (iv) balance of payments analysis; and (v) reserve management, foreign exchange operations, and balance of payments and foreign trade statistics.

- (d) Strengthening internal audit focusing, inter alia, on: (i) management audit; and (ii) systems audit.
- (e) Human resource management focusing, inter alia, on human resource planning, recruitment, promotion and performance evaluation and manager development.
- (f) Bank modernization, including performance measurement and management to enhance sustainability of the capacity built through the project; strategic planning; and improving the public relations of NBE.
- (g) Strengthening the capacity of the legal, information systems, finance and currency management departments of the NBE in the areas of human resource management and bank modernization.

Part 2: Financial Sector Infrastructure Capacity Building

Supporting the Recipient through the provision of technical advisory services, training, workshops and equipment in the following areas:

- (a) Modernization of the payment system including: (i) creation of a national payments framework and non-electronic payment systems; (ii) developing skills in payments risk analysis and oversight; and (iii) upgrading or establishment of clearing houses.
- (b) Upgrading and automating the credit information center including: (i) the expansion of the existing database; (ii) enhancing the skills of NBE staff in the effective use of the data base; (iii) enhancing the skills of commercial banks' staff and other parties in the provision of credit information; and (iv) designing and implementing a public awareness campaign on the importance of credit reporting systems.
- (c) Developing the capital market infrastructure including: (i) preparing and establishing a centralized depository and clearance, and electronic settlement mechanism for Government debt and corporate bonds; (ii) supporting the establishment of a stock exchange and developing a framework for stock market regulation; and (iii) preparing a strategy and action plan for the development of government and corporate bond markets.
- (d) Creating an asset Registry to facilitate secured transactions.

Part 3: **New Financial Products**

Supporting the Recipient, through a program of technical assistance, training, workshops and provision of equipment, in the development and introduction of new financial products, such as credit cards, and including, *inter alia*, products for: (i) housing finance; (ii) leasing finance; (iii) small and medium enterprise financing; (iv) agricultural risk management; and (iv) other products that the Project may develop.

Part 4: **Professional Skills in the Financial Sector**

Supporting the Recipient, through provision of technical assistance, training, workshops and acquisition of equipment, in enhancing professional skills in the financial sector through: (i) improving the curriculum of the EIBI; (ii) developing certification programs for finance professionals; (iii) upgrading the information technology capacity of the EIBI; and (iv) developing the research capacity of professional associations.

Part 5: **Implementation, Monitoring and Evaluation of Project**

Provision of technical assistance consisting of consultants' services and training to support the NBE in strengthening and mainstreaming of Project related implementation and monitoring and evaluation activities.

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 under a subsidiary agreement between the Recipient and the Project Implementing Entity, under terms and conditions acceptable to the Association (“Subsidiary Agreement”).
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 of any of its provisions if in the opinion of the Association, such amendment or waiver shall materially and adversely affect the carrying out of the Project or the achievement of the objective thereof.

B. Institutional Arrangements

1. Project Implementation Plan. The Recipient shall cause the Project Implementing Entity to implement the Project in accordance with the Project Implementation Plan and, except as the Recipient and the Association shall otherwise agree, the Recipient shall not amend or waive any provision of the Project Implementation Plan, if in the opinion of the Association, such amendment or waiver shall materially and adversely affect the carrying out of the Project or the achievement of the objective thereof.
2. The Recipient shall establish and maintain, or cause the Project Implementing Entity to establish and maintain, until completion of the project:
 - (a) The Steering Committee (SC), with the responsibility for Project oversight and ensuring effective coordination among the beneficiaries of the Project. To this end, the SC shall be comprised of representatives of key institutions benefiting from the Project, including the NBE, MoFED, Agency for the Monitoring of Public Financial Institutions, Ministry of Trade and Industry, and the financial industry associations. The SC shall

meet quarterly during the first year of Project implementation and thereafter twice a year.

- (b) The Project Coordinating Committee (PCC) comprised of senior representatives from relevant units within the NBE, with responsibility for co-ordination of the implementation of the Project. To this end, the PCC shall meet on a regular basis as needs arise.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

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 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.

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 un-audited financial reports for the Project, covering the quarter, in form and substance satisfactory to the Association.
3. The Recipient shall 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 Recipient, commencing with the fiscal year in which the first withdrawal was made. 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.** 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) Limited International bidding
(c) Shopping
(d) 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) Selection Based on Consultants Qualifications
(b) Single Source Selection
(c) Individual Consultants

D. Review by the Bank of Procurement Decisions

1. 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 Grant ("Category"), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Grant Allocated (expressed in SDRs)	Percentage of Expenditures to be Financed
(1) Goods, consultants' services, training and workshops, and seed money for pilots for the Project	10, 100,000	100%
(2) Operating costs	200,000	100%
TOTAL AMOUNT	10,300,000	

B. Withdrawal Conditions; Withdrawal Period

1. For the purposes of this Schedule, the term “Operating costs” means the incremental operating costs arising under the Project on account of wages and salaries of the new staff to be recruited at NBE to assist with project implementation, monitoring and evaluation.
2. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made for payments made prior to the date of this Agreement.
3. The Closing Date is June 30, 2009.

APPENDIX

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. “EIBI” means Ethiopian Institute of Banking and Insurance;
4. “FY” means the Fiscal Year of the Recipient, commencing July 8 and ending July 7;
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005;
6. “IT” means Information Technology;
7. “MoFED” means the Recipient’s Ministry of Finance and Economic Development;
8. “NBE” means the National Bank of Ethiopia, established and operating pursuant to the Recipient’s Banking and Monitoring Proclamation No. 83/94;
9. “PCC” means the Project Coordinating Committee referred to in paragraph B.2 of Section I of Schedule 2 to this Agreement;
10. “PIP” means project implementation Plan referred to in paragraph B.1 of Section I of Schedule 2 to this Agreement;
11. “POM” means the Project Operations Manual, adopted by the Recipient containing guidelines and procedures to be used for the purpose of implementation of the Project, including, the Project Implementation Plan (PIP), the Financial Management Plan, and Procurement Plan, as may be amended from time to time in consultation with the Association, and such term includes any schedules to the POM;
12. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004;
13. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated May 12, 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;

14. "Project Implementing Entity" means the NBE as herein before defined; and
15. "SC" means the Steering Committee referred to paragraph B.2 of Section I of Schedule 2 to this Agreement.