

Public Disclosure Authorized

CONFORMED COPY

CREDIT NUMBER 3989-1-ET

Financing Agreement

(Additional Financing for Second Roads Sector Development Support Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 7, 2006

Public Disclosure Authorized

CREDIT NUMBER 3989-1-ET

FINANCING AGREEMENT

AGREEMENT dated August 7, 2006, entered into between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for the Original Project (as defined in the Appendix to this Agreement). 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 fifty-nine million eight hundred thousand Special Drawing Rights (SDR 59,800,000) (“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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 May 15 and December 15 in each year.
- 2.06. The principal amount of the Credit shall be repaid in accordance with repayment schedule set forth in Schedule 3 to this Agreement.

- 2.07. The Payment Currency is Dollars.

ARTICLE III — EXECUTION OF THE PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, without any limitation or restriction upon any of its other obligations under the Financing Agreement, 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:
- (a) Proclamation No.80/1997 of the Recipient shall have 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) A situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.
- 4.02. The Additional Event of Acceleration consists of the following:
- (a) The event specified in paragraph (a) of 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.
 - (b) The event specified in paragraph (b) of 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 has been executed on behalf of the Recipient and the Project Implementing Entity.
 - (b) Amendments to the Project Agreement have been executed on behalf of the Association and the Project Implementing Entity.
- 5.02. The Additional Legal Matter consists of the following:
- (a) 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 Article 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 responsible for finance.

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 DEMOCRATRIC REPUBLIC OF ETHIOPIA

By: /s/ Ato Mekonnen Manyazewal
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Herbert Acquay
Authorized Representative

SCHEDULE 1

Project Description

The objectives of the Project are to assist the Recipient in increasing its road transport infrastructure and improving the reliability thereof, strengthening the capacity for road construction, management and maintenance and enhancing the financing program in relation thereto in order to ensure sustainability, and creating conditions conducive to private sector participation in the road transport sector.

The Project consists of the Original Project, as modified to the date of this Agreement.

SCHEDULE 2

Project Execution

Section I. Subsidiary Financing; Institutional and Other Arrangements

A. 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 agreement between the Recipient and the Project Implementing Entity, under terms and conditions approved by 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.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. 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 indicators agreed with the Association. Each Project Report on the progress of the monitoring and evaluation indicators shall cover the period of one year of the Project implementation, and shall be furnished to the Association not later than four months after the end of the period covered by such report.
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 December 31, 2011.

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 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 Borrower 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. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 1 to the Project Agreement, as said provisions may be further elaborated in the Procurement Plan.
- B. The Borrower shall cause the Project Implementing Entity to update the Procurement Plan in accordance with terms of reference acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

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) Works under Part A(1) of the Project	59,800,000	100% of foreign expenditures
TOTAL AMOUNT	59,800,000	

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.
2. The Closing Date is June 30, 2012.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each May 15 and November 15:	
Commencing May 15, 2016, to and including November 15, 2026	1%
Commencing November 15, 2026, to and including May 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

Definitions

1. “Category” means a category set forth in the table in Section IV of Schedule 4 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. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005;
4. “Original Financing Agreement” means the development credit agreement for a Second Roads Sector Development Support Project between the Recipient and the Association, dated March 10, 2005 (Credit No. 3989-ET), as amended to the date of this Agreement;
5. “Original Project” means the Project described in the Original Financing Agreement;
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 May 18, 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. “Program” means the program designed to improve reliability of access to road transport infrastructure in the territory of the Recipient with a view to remove constraints to economic growth, thus contributing to poverty alleviation through improvements in rural and urban connectivity, market integration, accessibility to basic social services, and trade facilitation, as described in the letter from the Recipient to the Association dated June 25, 2004;
9. “Project Implementing Entity” means Ethiopian Roads Authority; and
10. “Subsidiary Agreement” means the agreement referred to in Section I. A of Schedule 2 to this Agreement pursuant to which the Recipient shall make the proceeds of the Credit available to the Project Implementing Entity.

