Republic of Djibouti: Strengthening Institutional Capacity and Management of the Education System Project  
(Grant No. H777-DJ)  
Second Amendment to the Financing Agreement

Excellency:

We refer to the Financing Agreement (the Financing Agreement) between the Republic of Djibouti (the Recipient) and the International Development Association (the Association) dated August 21, 2012 as amended on June 7, 2017.

We also refer to your letter No. 486/MEFI dated August 9, 2017, requesting certain amendments to the Financing Agreement.

The Association hereby agrees to amend the Financing Agreement as follows:

1. Section A.1(ii) in Part A of Schedule 1 to the Financing Agreement is amended in its entirety to read as follows:

“(ii) strengthening the planning and management of financial, material and human resources for greater efficiency in resource use through, inter alia: (a) supporting the transition to a Medium Term Expenditure Framework; (b) developing a study on the status of patrimonial assets and develop an asset management strategy and system; (c) supporting the rationalization of the human resource management; and (d) providing Sub-grants to selected primary and lower secondary schools (Beneficiary Schools) to finance the implementation of school-level improvement plans (projets d’école) as specified in the MOP.”

2. Part I.A.2 of Schedule 2 to the Financing Agreement is amended in its entirety to read as follows:

“2. The Recipient shall carry out the Project through BEPE in charge of: (i) managing and coordinating Project activities; (ii) the procurement and disbursement processing; (iii) maintaining Project accounts; (iv) facilitating the carrying out of Project audits; (v) preparing and submitting Project progress and Interim Un-audited Financial Reports; and (vi) managing Sub-grants to selected Beneficiary Schools under Section A.1(ii)(d) of Part A of Schedule 1 of this Agreement, including coordinating the establishment of related school management committees (comités de gestion d’école), the preparation of related school improvement plans, and the approval of such plans by the Recipient’s Ministry of Education, as detailed in the MOP.”
3. A new Section C. is hereby introduced in Section 1 of Schedule 2 to the Financing Agreement to read as follows:

C. "Sub-grants.

1. For purposes of carrying out Part A.1(ii)(d) of the Project, the Recipient, through BEPE, shall enter into an agreement (Sub-grant Agreement) with the pertinent Beneficiary School; all under the terms and conditions satisfactory to the Association and set forth in paragraph 2 below.

2. Upon approval of the specific activities under Part A.1(ii)(d) of the Project to be financed by the pertinent Sub-grant, and prior to the carrying out of any said activities by the Beneficiary School, as the case may be, the Recipient shall have entered into the pertinent Sub-grant Agreement under the terms and conditions acceptable to the Association, which shall include, *inter alia*:

(a) The Recipient's right to protect its interests and those of the Association, including the right to:

(i) require the pertinent Beneficiary School to:

(A) carry out the pertinent activities with due diligence and efficiency and in accordance with: (1) sound technical, economic, financial, and managerial standards acceptable to the Association; (2) the ESIA; and (3) all the relevant terms and conditions of this Agreement (including the provisions of the Anti-Corruption Guidelines applicable to recipients of grant proceeds other than the Recipient);

(B) when applicable, provide promptly as needed, the resources required for the purpose of carrying out the pertinent activities;

(C) procure the goods, works and consultants' services to be financed out of the pertinent Sub-grant in accordance with the provisions of Section III of this Agreement;

(D) maintain policies and procedures adequate to enable the Recipient to monitor and evaluate the pertinent activities under Part A.1(ii)(d) of the Project in accordance with indicators acceptable to the Association, the progress of the pertinent activity and the achievement of its objectives;

(E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the activities under Part A.1(ii)(d) of the Project; and (2) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association;

(F) enable the Recipient and the Association to inspect the pertinent activities, its operation and any relevant records and documents; and
(G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing; and

(H) suspend or terminate the right of the pertinent Beneficiary School, to use the proceeds of the pertinent Sub-grant, for the carrying out of the activities under Part A.1(ii)(d) of the Project, respectively, or obtain a refund of all or any part of the amount of said Sub-grant then withdrawn, upon the Beneficiary School, failure to perform any of their obligations under the pertinent Sub-grant Agreement.

3. The Recipient shall exercise its rights and carry out its obligations under each Sub-grant Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing.

4. Except as the Association shall otherwise agree, the Recipient shall not amend, terminate, assign, abrogate, waive or fail to enforce any Sub-grant Agreement or any provision thereof.

5. In the event that any provision of any Sub-grant Agreement shall conflict with any of the provisions under this Agreement, the terms of this Agreement shall prevail."

4. The table in Section IV.A.2 of Schedule 2 to the Financing Agreement is amended in its entirety to read as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, Works, Non-Consulting services, Consultants’ services, Training and Incremental Operating Costs for the Project.</td>
<td>3,791,500</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Sub-grants under Part A.1(ii)(d) of the Project.</td>
<td>108,500</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>3,900,000</td>
<td></td>
</tr>
</tbody>
</table>

5. Section IV. B. 1 of Schedule 2 to the Financing Agreement is hereby amended in its entirety to read as follows:

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

(a) for payments made prior to the date of this Agreement.

(b) under Category (2), until and unless the Association has received evidence satisfactory in form and substance, that the MOP has been updated to include procedures and rules acceptable to the Association for the implementation of the Sub-grants under Part A.1 (ii) (d) of the Project."

6. The following definitions are introduced and placed in alphabetical order in Section I of the Appendix to this Agreement:

"Beneficiary School" means a primary or lower secondary public school located within the Recipient's territory which is vested with legal personality and meets the criteria to participate in the Project, as outlined in the MOP.”

"Sub-grant" means a grant made out of the proceeds of the Financing by the Recipient, through BEPE to a Beneficiary School, to finance goods and works, training and consultant services for the carrying out of the activities under Part A.1 (ii)(d) of the Project, subject to specific terms and conditions set forth in the relevant Sub-grant Agreement.

"Sub-grant Agreement" means any of the agreements to be entered into by the Recipient and the pertinent Beneficiary School pursuant to Section I.C.1 of Schedule 2 to this Agreement.”

All the terms and conditions of the Financing Agreement that have not been hereby amended shall remain unchanged and in full force and effect.

[remainder of page intentionally left blank]
Please confirm your agreement with the foregoing, on behalf of the Recipient, by signing, dating and returning to the Association, the enclosed copy of this amendment letter. Upon receipt by the Association of the copy of this amendment letter countersigned by you, this amendment letter shall become effective as of the date of your countersignature.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

Atou Seck
Resident Representative for Djibouti
Middle East and North Africa Region

CONFIRMED AND AGREED:

REPUBLIC OF DJIBOUTI

By:

Authorized Representative

Name: Ilyas Houssa Dawaleh

Title: Ministre

Date: 04-01-18