Financing Agreement

(Water Supply, Sanitation and Hygiene Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated April 10, 2014
FINANCING AGREEMENT

AGREEMENT dated April 10, 2014, 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 one hundred thirty three million two hundred thousand Special Drawing Rights (133,200,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 15 and October 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 Dollar.
ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project through MoWIE, MoFED, MoH, MoE and WRDF in accordance with the provisions of Article IV of the General Conditions and in accordance with Project implementation arrangements set forth in the Project Implementation Manual.

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 — TERMINATION

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

4.02. 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 V — REPRESENTATIVE; ADDRESSES

5.01. The Recipient’s Representative is its Minister of Finance and Economic Development.

5.02. 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 (25-11) 1551355
5.03. 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 248423 (MCI) 1-202-477-6391
Washington, D.C.

AGREED at Addis Ababa, Federal Democratic Republic of Ethiopia, as of the
day and year first above written.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

Authorized Representative
Name: H.E. Mr. Ahmed Shide
Title: State Minister

INTERNATIONAL DEVELOPMENT ASSOCIATION

Authorized Representative
Name: Parminder P. S. Brar
Title: Country Director, a.i.
SCHEDULE 1

Project Description

The objective of the Project is to increase access to improved water supply and sanitation services for residents in participating woredas, towns and communities in the territory of the Recipient.

The Project consists of the following parts:

Part 1: Rural Water Supply, Sanitation and Hygiene

(a) Construction and rehabilitation of community water supply schemes in participating woredas and towns.

(b) Construction and rehabilitation of water and sanitation facilities in schools and health facilities in participating woredas and communities.

(c) Promotion of improved hygiene and sanitation practices in participating communities.

(d) Capacity building to strengthen and sustain the capacity of participating woredas to effectively plan, implement and manage their water supply, sanitation and hygiene facilities.

(e) Capacity building to strengthen and sustain the capacity of participating communities to effectively operate their water supply and sanitation facilities.

(f) Capacity building for respective water, health and education regional bureaus and woreda offices to create a critical mass of well trained and skilled facilitators to mobilize communities for behavior change and demand creation to sustain changes.

Part 2: Urban Water Supply, Sanitation and Hygiene

(a) Rehabilitation and reconstruction of urban water production, treatment, and distribution systems.

(b) Preparation of a National Urban Sanitation Strategy, supporting studies on urban sanitation, and priority sanitation investments in participating towns.

(c) Activities to strengthen the capacity of participating water boards/committees and operators to effectively manage their water supply and sanitation facilities.
Activities to support preparation of follow up interventions in urban areas.

Part 3: Project Management, Monitoring and Evaluation

(a) Strengthening the capacity of MoWIE, MoFED, MoH, MoE, WRDF and regional bureaus and woreda offices for the Project and Program management, monitoring and evaluation, including: (i) refinement of sector policies and the Project and Program implementation arrangements; (ii) generation of information on existing water supply and sanitation sector policy performance, including cost recovery, sector financing, public private partnership, and post construction support, with a view of recommending policy revisions if needed; (iii) monitoring and evaluation of the Project and Program implementation and results, and strengthening gender mainstreaming in the sector; and (iv) improvement of the flow of information on the Project and Program results.

(b) Equipping of water quality testing and training centers.
SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall maintain at all times during the Project implementation period the National Water, Sanitation and Hygiene Steering Committee, the National Water, Sanitation and Hygiene Technical Team, the National Water, Sanitation and Hygiene Coordination Office, as well as Water, Sanitation and Hygiene Program Management Units in its sector ministries and WRDF, all with the composition, terms of reference, staff and other resources adequate for the Project implementation and satisfactory to the Association.

2. The Recipient shall ensure that adequate implementation arrangements, satisfactory to the Association, have been established and thereafter maintained at all times during the Project implementation period at regional, woreda, kebele and community level, as such implementation arrangements shall be further detailed in the Project Implementation Manual.

B. Project Implementation Manual

1. The Recipient shall implement the Project in accordance with the arrangements, procedures and requirements set out in the Project Implementation Manual and, except as the Recipient and the Association shall otherwise agree, the Recipient shall not amend, abrogate, suspend, or waive any provision of the Project Implementation Manual, without the prior written agreement of the Association.

2. No later than one (1) month after the effectiveness of this Agreement the Recipient shall develop a set of criteria, satisfactory to the Association, to be used to determine financing modalities (grant, loan, or the combination of the two) for the activities to be implemented by WRDF under Part 2 of the Project.

C. Anti-Corruption

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

D. Environmental and Social Safeguards

1. The Recipient shall implement the Project in accordance with SA, ESMF and RPF, and, to that end, shall:
(a) if any activity under Parts 1 or 2 of the Project would require the adoption of a Supplemental Social and Environmental Safeguard Instrument:

(i) prepare: (A) such Supplemental Social and Environmental Safeguard Instrument in accordance with ESMF and/or RPF; (B) furnish such Supplemental Social and Environmental Safeguard Instrument to the Association for review and approval; and (C) thereafter adopt such Supplemental Social and Environmental Safeguard Instrument prior to implementation of the activity; and

(ii) thereafter take such measures as shall be necessary or appropriate to ensure full compliance with the requirements of such Supplemental Social and Environmental Safeguard Instrument; and

(b) if any activity under the Project would involve Affected Persons, ensure that no displacement (including restriction of access to legally designated parks and protected areas) shall occur before resettlement measures under a Supplemental Social and Environmental Safeguard Instrument, including, in the case of displacement, full payment to Affected Persons of compensation and of other assistance required for relocation, have been taken.

2. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall regularly collect, compile and furnish to the Association reports in form and substance satisfactory to the Association on the status of compliance with ESMF, RPF and each Supplemental Social and Environmental Safeguard Instrument, as part of the Project Reports, giving details of:

(a) measures taken in furtherance of ESMF, RPF and each Supplemental Social and Environmental Safeguard Instrument;

(b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of ESMF, RPF and each Supplemental Social and Environmental Safeguard Instrument; and

(c) remedial measures taken or required to be taken to address such conditions.

3. The Recipient shall regularly review the effective use of SA, ESMF, RPF and Supplemental Social and Environmental Safeguard Instruments as part of the monitoring and evaluation system for the Project.
4. In the event that any provision of SA, ESMF, RPF or a Supplemental Social and Environmental Safeguard Instrument shall conflict with any provision of this Agreement, the respective provision of this Agreement shall prevail.

5. The Recipient shall not amend or waive, or permit to be amended or waived, any provision of SA, ESMF, RPF or a Supplemental Social and Environmental Safeguard Instrument without the prior agreement of the Association.

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 the indicators acceptable to the Association. Each Project Report shall cover the period of six (6) months, and shall be furnished to the Association not later than forty-five (45) days 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 six (6) 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. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association not later than sixty (60) 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 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. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.
Section III. Procurement

A. General

1. Goods, Works and Non-consulting Services. All goods, works and non-consulting 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 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 Sections II and III of the Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods, Works and Non-consulting Services

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods, works and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods, Works and Non-consulting Services. The following methods, other than International Competitive Bidding, may be used for procurement of goods, works and non-consulting services for those contracts specified in the Procurement Plan: (a) National Competitive Bidding (subject to the additional provisions set forth below); (b) Shopping; (c) Direct Contracting; (d) Procurement from United Nations Agencies; (e) Force Account; and (f) Community Participation procedures which have been found acceptable to the Association.

National Competitive Bidding shall follow the Recipient's procurement procedures subject to the following additional provisions:

(a) The Recipient's standard bidding documents for procurement of goods and works acceptable to the Association shall be used. At the request of the Recipient, the introduction of requirements for bidders to sign an Anti-Bribery pledge and/or statement of undertaking to observe Ethiopian Law against fraud and corruption and other forms that ought to
be completed and signed by him/her may be included in bidding documents if the arrangements governing such undertakings are acceptable to the Association.

(b) If pre-qualification is used, the Association’s standard prequalification document shall be used.

(c) No margin of preference shall be granted in bid evaluation on the basis of bidder’s nationality, origin of goods or services, and/or preferential programs such as but not limited to small and medium enterprises.

(d) Mandatory registration in a supplier list shall not be used to assess bidders’ qualifications. A foreign bidder shall not be required to register as a condition for submitting its bid and if recommended for contract award shall be given a reasonable opportunity to register with the reasonable cooperation of the Recipient, prior to contract signing. Invitations to bids shall be advertised in at least one newspaper of national circulation or the official gazette or on a widely used website or electronic portal with free national and international access.

(e) Bidders shall be given a minimum of thirty (30) days to submit bids from the date of availability of the bidding documents.

(f) All bidding for goods shall be carried out through a one-envelope procedure.

(g) Evaluation of bids shall be made in strict adherence to the evaluation criteria specified in the bidding documents. Evaluation criteria other than price shall be quantified in monetary terms. Merit points shall not be used, and no minimum point or percentage value shall be assigned to the significance of price, in bid evaluation.

(h) The results of evaluation and award of contract shall be made public. All bids shall not be rejected and the procurement process shall not be cancelled, a failure of bidding declared, or new bids shall not be solicited, without the Association’s prior written concurrence. No bids shall be rejected on the basis of comparison with the cost estimates without the Association’s prior written concurrence.

(i) In accordance with paragraph 1.16(e) of the Procurement Guidelines, each bidding document and contract financed out of the proceeds of the Financing shall provide that: (1) the bidders, suppliers, contractors and subcontractors, agents, personnel, consultants, service providers, or suppliers shall permit the Association, at its request, to inspect all accounts, records and documents relating to the bid submission and
performance of the contract, and to have them audited by auditors appointed by the Association; and (2) Acts intended to materially impede the exercise of the Association’s audit and inspection rights constitutes an obstructive practice as defined in paragraph 1.16 (v) of the Procurement Guidelines.

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 methods, other than Quality- and Cost-based Selection, may be used for procurement of consultants’ services for those contracts which are specified in the Procurement Plan: (a) Quality-based Selection; (b) Least Cost Selection; (c) Selection based on Consultants’ Qualifications; (d) Single-source Selection of consulting firms; (e) Procedures set forth in paragraphs 5.2 and 5.3 of the Consultant Guidelines for the Selection of Individual Consultants; and (f) Single-source procedures for the Selection of Individual Consultants.

D. Review by the Association of Procurement Decisions

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.

E. Other Procurement Covenant

The Recipient shall, no later than July 7 of each year until completion of the Project, carry out independent annual procurement audits of the Project activities, all in accordance with the terms of reference agreed with the Association. The audited reports for each such period shall be furnished to the Association not later than four (4) months after the end of such period.

**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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing 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, Operating Costs, and Training for Part 1 of the Project</td>
<td>68,861,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, works, non-consulting services, consultants' services, Operating Costs, and Training for Part 2 of the Project</td>
<td>53,950,000</td>
<td>100%</td>
</tr>
<tr>
<td>(3) Goods, non-consulting services, consultants' services, Operating Costs, and Training for Part 3 of the Project</td>
<td>6,494,000</td>
<td>100%</td>
</tr>
<tr>
<td>(4) Refund of Preparation Advance</td>
<td>3,895,000</td>
<td>Amount payable pursuant to Section 2.07 of the General Conditions</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>133,200,000</td>
<td></td>
</tr>
</tbody>
</table>

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, 2019.
**SCHEDULE 3**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each April 15 and October 15:</td>
<td></td>
</tr>
<tr>
<td>commencing April 15, 2024, to and including October 15, 2033</td>
<td>1%</td>
</tr>
<tr>
<td>commencing April 15, 2034, to and including October 15, 2053</td>
<td>2%</td>
</tr>
</tbody>
</table>

* 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. “Affected Person” means a person who as a result of: (i) the involuntary taking of land under the Project is affected in any of the following ways: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not the affected person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas suffers adverse impacts on his or her livelihood.


3. “Category” means a category set forth in the table in Section IV of Schedule 2 to


5. “ESMF” means the environmental and social management framework prepared by the Recipient and disclosed within Ethiopia and in the Association’s Infoshop on December 3, 2013, and setting forth the modalities and parameters for environmental and social screening and procedures/actions for preparation of Environmental and Social Assessments and Environmental and Social Management Plans for the activities under Parts 1 and 2 of the Project.

6. “ESMP” means an environmental and social management plan to be prepared by the Recipient in accordance with the modalities and parameters laid down in the ESMF, and acceptable to the Association, setting forth a set of mitigation, monitoring, and institutional measures to be taken during the implementation of the Project to eliminate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, and including the actions needed to implement these measures.


8. “MoE” means the Ministry of Education of the Recipient or any successor thereto.


10. “MoH” means the Ministry of Health of the Recipient, or any successor thereto.

12. "Operating Costs" means the incremental expenses incurred on account of Project implementation, including audits, office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, per diem and supervision costs, salaries of locally contracted employees, but excluding salaries of officials of the Recipient's civil service.


14. "Procurement Plan" means the Recipient’s procurement plan for the Project, dated January 16, 2014, and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.

15. "Program" means the Recipient’s National Water, Sanitation and Hygiene Program approved by the Ethiopian National Water, Sanitation and Hygiene Steering Committee on September 13, 2013.

16. “Project Implementation Manual” or “PIM” means a document adopted by the Recipient pursuant to Section I.B of Schedule 2 to this Agreement and setting forth the arrangements, procedures and requirements for the implementation of the Project, consistent with the provisions of this Agreement and with applicable laws and regulations of the Recipient, including, among other things, administrative, procurement, accounting, financial management, disbursement, reporting, environmental and other safeguards arrangements, as the same may be amended from time to time upon agreement with the Association.

17. “RAP” means a resettlement action plan, to be prepared by the Recipient pursuant to the RPF for compensation, resettlement and rehabilitation of Affected Persons, acceptable to the Association, for the purposes of Parts 1 or 2 of the Project, as such plan may be amended from time to time with the prior written approval of the Association.

18. “RPF” means resettlement policy framework, disclosed within the Recipient and in the Association’s Infoshop on December 3, 2013, prepared by the Recipient and outlining the policies and procedures to be implemented in the event that specific activities implemented under the Project have potentially negative impacts on the livelihoods, assets and land of Affected Persons, as the said framework may be amended and/or supplemented from time to time with the
prior written consent of the Association, and such term includes any schedules to such document.

19. “Social Assessment” or “SA” means the document dated September 20, 2013, identifying and assessing the potential social impacts of the Project, evaluating alternatives, and proposing appropriate mitigation, management, and monitoring measures, defining specific measures to be implemented for vulnerable and underserved groups, through free prior informed consultations and broad community support, in order to protect them and to ensure that they be granted equal legal, financial and organizational opportunities under the Project, as the said plan may be amended and/or supplemented from time to time with the prior written consent of the Association, and such term includes any schedules to such document.

20. “Supplemental Social and Environmental Safeguard Instruments” means any ESMP, RAP, or other supplemental social and environmental safeguard instruments as may be required for the activities under Parts 1 or 2 of the Project pursuant to ESMF and RPF.

21. “Training” means Project related study tours, training courses, seminars, workshops and other training activities, not included under service providers’ contracts, including costs of training materials, space and equipment rental, travel, accommodation and per diem costs of trainees and trainers, trainers’ fees, and other training related miscellaneous costs.