GRANT NUMBER TF012730

Grant Agreement

(Multi-donor Trust Fund for the Co-financing of Sub-program A(i)
under the Protection of Basic Services Program (Phase II) Project

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as administrator of Multi-donor Trust Fund for the Co-financing of Sub-program A(i) under the Protection of Basic Services Program (Phase II) Project)

Dated July 23, 2012
GRANT NUMBER TF012730

Multi-donor Trust Fund for the Co-financing of Sub-program A(i)
under the Protection of Basic Services Program (Phase II) Project

GRANT AGREEMENT

AGREEMENT dated July 23, 2012, entered into between: the FEDERAL DEMOCRATIC
REPUBLIC OF ETHIOPIA ("RECIPIENT"); and the INTERNATIONAL DEVELOPMENT
ASSOCIATION ("World Bank"), acting as an administrator of funds provided by various
donors ("Donors") under the Multi-donor Trust Fund for the Co-financing of Sub-program
A(i) under the Protection of Basic Services Program ("Phase II") Project ("PBS Phase II
Project").

WHEREAS:

(A) Pursuant to a grant agreement entered into between the Recipient and the
World Bank dated June 19, 2009, (the "Original Grant Agreement") ("Grant No. TF094641")
for the Co-financing of Sub-program A(i) under PBS Phase II Project, the World Bank granted
the Recipient an amount equivalent to four hundred seventy two million two hundred one
thousand five hundred ninety six United Sates Dollars and sixty cents ("472,201,596.60).

The Recipient and the World Bank hereby agree as follows:

Article I
Standard Conditions; Definitions

1.01. The Standard Conditions for Grants Made by the World Bank Out of Various Funds,
dated February 15, 2012, ("Standard Conditions"), 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 Standard Conditions, the Original Grant
Agreement, or in the Appendix to this Agreement. In case the same term is defined
twice, the definition to this Agreement shall prevail.

Article II
The Project

2.01. The Recipient declares its commitment to the objectives of the project described in
Schedule I to this Agreement ("Project"). To this end, the Recipient shall carry out
the Project through MOFED in accordance with the provisions of Article II of the
Standard Conditions.
2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank 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 III
The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to sixty seven million five hundred eighty two thousand six hundred twenty three United States Dollars ($67,582,623) ("Grant") to assist in financing the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

3.03. The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the donor to the trust fund. In accordance with Section 3.02 of the Standard Conditions, the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the donors under the abovementioned trust fund, and the Recipient’s right to withdraw the Grant proceeds is subject to the availability of such funds.

Article IV
Additional Remedies

4.01. The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the following, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

Article V
Recipient’s Representative; Addresses

5.01. The Recipient’s Representative is the Minister at the time in charge 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: 21147
Facsimile: (251-11) 1551355

5.03. The World Bank’s Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INDEVAS
Telex: 248423 (MCI) or 202-477-6391
Facsimile: 64145 (MCI)
AGREED at Addis Ababa, Federal Democratic Republic of Ethiopia, as of the day and year first above written.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By

Authorized Representative

Name: AHMED SHIDE
Title: State Minister

INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as Administrator of the Multi-donor Trust Fund for the Co-financing of Sub-program A(i) of the Protection of Basic Services Program (Phase II) Project)

By

Authorized Representative

Name: Guang Z. Chen
Title: Country Director for Ethiopia
SCHEDULE 1

Project Description

The objective of the Ethiopia PBS Phase II Project supported by the Grant is to contribute to expanding access and improving the quality of basic services in education, health, agriculture, water supply and sanitation, and rural roads delivered by sub-national governments, while continuing to deepen transparency and accountability in service delivery. The Grant is provided to support the Block Grants under Subprogram A(i) of the Program.

The Project consists of the following part:

Sub-program (A)(i) – Block Grants

Provide financial support to the Regional Governments and Local Authorities through timely provision of Block Grants, enabling the respective Region and Local Authority to carry out envisaged activities (as budgeted for recurrent expenditures) for basic services in the areas of health, education, agriculture, water supply and sanitation, and rural roads.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. General

1. The Recipient shall carry out the Project in accordance with the Operational Manual throughout the period of implementation of the Project. The Recipient shall ensure that any amendments and revisions to the Operational Manual that may be required during the implementation period in order to strengthen the effectiveness and efficiency of implementation arrangements will be agreed in writing with the World Bank and Contributing Partners prior to its finalization and adoption.

2. In case of conflict between the provisions of the Operational Manual and this Agreement, the latter shall prevail.

B. Subprograms A(i) – Block Grants

1. At the federal level, the Recipient shall cause MOFED to be responsible for coordination, monitoring and oversight of the implementation of the Project in accordance with the PBS Operational Manual. For this purpose, MOFED shall liaise with Pooled Funding A Partners as required.

MOFED’s primary responsibilities shall include:

(a) making timely transfers of resources for Subprogram A(i) expenditures to Regions as per agreed fiscal transfer formulae, ensuring effective financial management and compliance with fiduciary requirements;

(b) managing the implementation of various technical assistance and systems development activities to ensure transparent budget execution, enhanced fiscal reporting, and improved monitoring of key results for the delivery of basic services;

(c) coordinating with the Key Line Ministries, their counterpart Regional sector bureaus and Woreda sector offices, as necessary, for the implementation of the Project;

(d) ensuring that Regional sector bureaus and Woreda sector offices disseminate service facility related information;
(e) ensuring effective collaboration and coordination with relevant programs (e.g. PSCAP); and

(f) ensuring the timely execution of annual financial audits.

2. MOFED's organ at the time responsible for macroeconomic policy and management will carry out the day-to-day implementation of Program activities, and report on overall progress with implementation and achievements of the Project; and support and monitor the procurement activities being undertaken by other implementing agencies under the Project.

3. MOFED's organ at the time responsible for central accounts and treasury will assist in monitoring and tracking financial flows to lower levels of government.

4. At the Regional level, the Recipient shall cause Bureaus of Finance and Economic Development to:

(a) transfer resources for Subprogram A(i) expenditures to Local Authorities based on agreed plans for delivery of basic services;

(b) coordinate Project implementation of Subprograms A(i) and launch start-up activities;

(c) mobilize technical assistance from other line agencies as may be required;

(d) in collaboration with regional bureaus of capacity building, coordinate, manage and monitor the implementation of financial transparency and accountability activities at regional level;

(e) review and consolidate progress reports and provide feedback, as necessary; and

(f) monitor and evaluate overall performance and resource use.

5. At the local level, the Recipient shall cause Woreda Offices of Finance and Economic Development and Urban Administration Offices of Finance to be responsible for managing and coordinating the day-to-day implementation of Project activities. WOFEDs and UAOFs shall undertake operational tasks such as planning, supervision, financial management, monitoring and evaluation as described in the PBS Operational Manual. They will also be responsible for managing and coordinating the day-to-day implementation activities associated with the financial transparency and accountability initiatives.
C. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006, and revised in January 2011 (“Anti-Corruption Guidelines”).

D. Donor Visibility and Visit

1. The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donors’ support for the Project.

2. For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank’s request, enable the representatives of the Donors to visit any part of the Recipient’s territory for purposes related to the Project.

Section II. Project Monitoring, Reporting, Evaluation

A. Project Reports; Completion Reports

1. The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover a period of six (6) months, and shall be furnished to the World Bank not later than three (3) months after the end of the period covered by such report.

2. During Project implementation, the Recipient shall ensure that at least six JBARs/JRIS are carried out, pursuant to the provisions of the PBS Operational Manual, with the involvement of Regions and sectors. Unless otherwise agreed with the World Bank, the JBARs shall be carried out according to the following schedule:

   (i) First JBAR no later than June 30, 2009.
   (ii) Second JBAR in October/November 2009.
   (iii) Third JBAR in April/May 2010.
   (iv) Fourth JBAR in October/November 2010.
   (v) Fifth JBAR in April/May 2011
   (vi) Sixth JBAR in October/November 2011.
   (vii) Seventh JBAR in April/May 2012; and
   (viii) Eighth JBAR in October/November 2012.
B. Financial Management, Financial Reports and Audits

1. The Recipient shall maintain a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. Without limitation to the provisions of Part A of this Section, the Recipient shall prepare and furnish to the World Bank: (a) not later than forty-five (45) days after the end of each Ethiopian fiscal quarter for the Project, interim unaudited financial reports for the Project covering such quarter, in form and substance satisfactory to the World Bank; (b) not later than ninety (90) days after the end of each Ethiopian fiscal quarter, quarterly expenditure reports for the Project in form and substance satisfactory to the World Bank.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07(b) of Standard Conditions. Each audit of the Financial Statements shall cover the period of one Ethiopian Fiscal Year. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

4. The Recipient shall also cause OFAG to audit, on a continuous basis, samples of Regions that have received funds under Subprograms A(i) and of such scope and detail as shall have been agreed with the World Bank. The Recipient shall cause OFAG to provide the World Bank with quarterly summaries of these audit findings, within sixty (60) days of the end of each Ethiopian fiscal quarter.

Section III. Procurement

A. General

1. Procurement and Consultant Guidelines. All goods, works, and consultants' services required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(a) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Procurement Guidelines”) in the case of goods, works and non-consulting services, and Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants' services; and

(b) the provisions of this Section III, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the
Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

2. Definitions. The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the World Bank 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 and Works

1. International and National Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International and National Competitive Bidding. National Competitive Bidding (NCB) shall follow the Recipient’s procurement procedures, subject to the following additional procedures: (i) the Recipient’s standard bid documents for procurement of goods and works shall be used; (ii) if pre-qualification is used, the World Bank’s standard prequalification document shall be used; (iii) margin of preference shall not be applicable; (iv) bidders shall be given a minimum of 30 days to submit bids from the date of availability of the bidding documents; (v) use of merit points for evaluation of bids shall not be allowed; (vi) foreign bidders shall not be excluded from participation; and (vii) results of evaluation and award of contract shall be made public.

2. Other Methods of Procurement of Goods and Works. The following table specifies the methods of procurement, other than International or National Competitive Bidding, which may be used for goods and works. Without prejudice to the World Bank’s Procurement Guidelines, the Procurement Plan and the PBS Operational Manual shall specify, on a case by case basis, the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Limited International Bidding</td>
</tr>
<tr>
<td>(b) Shopping</td>
</tr>
<tr>
<td>(c) Direct Contracting</td>
</tr>
<tr>
<td>(d) Procurement from United Nations Agencies</td>
</tr>
<tr>
<td>(e) Community participation</td>
</tr>
</tbody>
</table>

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. For the purposes of
paragraph 2.7 of the Consultant Guidelines, the short list of consultants for consulting services estimated to cost less than $200,000 equivalent, per contract, may include only consultants from the country of the Recipient.

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.

<table>
<thead>
<tr>
<th>Procurement Methods</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Least Cost Selection</td>
</tr>
<tr>
<td>(b) Selection Based on the Consultants’ Qualifications</td>
</tr>
<tr>
<td>(c) Single Source Selection</td>
</tr>
<tr>
<td>(d) Selection of Individual Consultants</td>
</tr>
<tr>
<td>(e) Community Participation</td>
</tr>
</tbody>
</table>

D. **Review by the World Bank of Procurement Decisions**

The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Section IV. **Withdrawal of the Proceeds of the Grant**

A. **General**

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may 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 World Bank 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 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:
<table>
<thead>
<tr>
<th>Categories</th>
<th>Amount of the Grant Allocated (expressed in United States Dollars)</th>
<th>% of expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Block Grants under Subprogram A(i)</td>
<td>67,582,623</td>
<td>Such percentage of Eligible Expenditures as the World Bank may determine for each six monthly period of the EFY</td>
</tr>
<tr>
<td>TOTAL</td>
<td>67,582,623</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:
   (a) for payments made prior to the date of this Agreement; or
   (b) under Category (1), unless the World Bank has confirmed in writing that:
       (A) the annual sub-national budget for basic services comprising the relevant Subprogram A(i) expenditures, satisfactory to the World Bank, has been delivered to the World Bank; (B) the relevant JBAR and JRIS have concluded successfully, in the opinion of the World Bank, enabling a determination of the appropriate percentage of expenditures to be financed, taking into account the Recipient’s performance under the Project; and (C) satisfactory interim financial reports, prepared for two successive quarters in accordance with the provisions of Original Grant Agreement, relating to the Subprogram A(i) expenditures for the relevant Project period, have been delivered to the World Bank.

2. The Closing Date is December 31, 2012.

Section V. Other Undertakings

1. The Recipient shall:
   (a) maintain, or renew, in accordance with the provisions of the Original Grant Agreement, during the implementation of the Project, all such additional staff within its agencies, as have been agreed to be recruited in accordance with the provisions the Original Grant Agreement to be assigned to support the COPCU and BoFEDs, all with such authority and
with qualifications and under terms of reference as shall be at all times satisfactory to the World Bank;

(b) ensure that the plan for roll-out of the social accountability activities under the Program will be maintained by the PBS Social Accountability Steering Committee, and that the corresponding activities are undertaken in a timely manner;

(c) by April 30, 2011, carry out a follow-up study to monitor improvements in financial transparency and accountability, based on the Woreda city benchmarking survey undertaken on financial transparency and accountability under the auspices of MCB; and

(d) by April 30, 2012, carry out under terms of reference satisfactory to the World Bank, by duly qualified auditors acceptable to the World Bank, retained in accordance with the provisions of Section III of this Schedule 2, an independent procurement audit for all expenditures financed under the Project, and furnish a report to the World Bank thereon of such scope and detail as the World Bank shall request.
APPENDIX

Definitions

1. "Bureau of Finance and Economic Development" or "BOFED" means the agency established at the Regional level within the administration of the Regional Government which has responsibilities under the Project as described in paragraph 4 of Section I.E of Schedule 2 to this Agreement.

2. "Contributing Partners" means donor agencies that are providing financial support to the Program, either through co-financing or directly channeled to the Recipient.

3. "COPCU" or "Channel One Programs Coordinating Unit" means the unit in MOFED which will oversee the implementation of activities to support the strengthening of Woreda public financial management systems.

4. "Designated Pooled Account A" means the account to be maintained in the National Bank of Ethiopia in Dollars to finance activities relating to Subprogram A(i) into which the Pooled Funding A Partners' funds shall be deposited.

5. "Ethiopian Fiscal Year" or "EFY" means the Fiscal Year of the Recipient which commences on July 8 and ends on July 7.


7. "JBARs" or "Joint Budget and Aid Reviews" means the regular semi-annual reviews jointly carried out by the Recipient and development partners, on matters relevant to the coordination of financial assistance for the development of the Recipient, and to be convened regularly during the implementation of the Project, as described in paragraph 2 of Section II.A of Schedule 2 to this Agreement.

8. "Jريس" or "Joint Review and Implementation Supports" means each semi-annual supervision mission jointly carried out by the Recipient and the Contributing Partners.


10. "Local Authorities" means the third tier of government in the administrative system of Recipient established under each Region's constitution and includes Woredas and Urban Administrations.

12. "MOFED" means the Recipient's Federal Ministry of Finance and Economic Development which is responsible for certain functions under the Project as described in paragraph 1(a) of Section I.B of Schedule 2 to this Agreement.


14. "OFAG" means the Office of the Federal Auditor General, the constitutionally mandated financial auditor of the Recipient.

15. "Operational Manual" means the manual referred to in Section I.A.1 of Schedule 2 to this Agreement, in form and substance satisfactory to the World Bank setting forth details of the procedures, guidelines, timetables and criteria required for the Project, as such manual may be amended from time to time with the prior written agreement of the World Bank, and such term includes all schedules and annexes to such manual.

16. "Pooled Funding A Partners" means collectively, the World Bank and any other international development agencies or governments that are pooling at least a part of their funds for Subprogram A(i) into Designated Pooled Account A.

17. "Procurement Plan" means the Recipient's procurement plan for the Project, dated March 31, 2009, 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.

18. "Program" means the Recipient's strategic plan for: (i) the health sector, as set forth in the Health Sector Development Program dated September 2005 and covering the period from 2005-06 to 2010-11; (ii) the education sector, as set forth in the Education Sector Development Program dated August 2005 and covering the period from 2005-06 to 2009-10; (iii) the water and sanitation sector, as set forth in the Water Sector Strategy dated 2001 and Water Sector Development Program dated 2002 and covering the period from 2002 to 2016; and (iv) devolution of responsibilities, as set forth in the Fiscal Decentralization Strategy dated September 2004.

19. "PSCAP" means the Public Sector Capacity Building Program of the Recipient.

20. "Regions" means the Recipient's nine states, namely Tigray, Amhara, Oromia, Southern Nations Nationalities and Peoples, Benishangul-Gumuz, Gambella, Somali, Afar and Harrari and includes, wherever mentioned in this Agreement for purposes of this Project, the City Administration of Dire Dawa.

22. "Subprogram A(i)" means an annual program of activities and associated budget for the Project.

23. "Urban Administration" means the third tier of government in the Recipient's administrative system as established under the relevant regional legislation and having the same status as a Woreda.

24. "Urban Administration Office of Finance" or "UAOF" means the governmental agency established at local level in an Urban Administration which has responsibilities under the Project as described in Section I.B.5 of Schedule 2 to this Agreement.

25. "Woreda" means the third tier of government in the Recipient's administrative system as established under the relevant Regional legislation.

26. "Woreda Office of Finance and Economic Development" or "WOFED" means the governmental agency established at local level in a Woreda with responsibilities under the Project as described in Section I.B.5. of Schedule 2 to this Agreement.