



CREDIT NUMBER 5766-ET

Financing Agreement

(Public Financial Management Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated March 17, 2016

CREDIT NUMBER 5766-ET

FINANCING AGREEMENT

AGREEMENT dated March 17, 2016, entered into between the FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (“Recipient”) and the 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 twenty-three million nine hundred thousand Special Drawing Rights (SDR 23,900,000) (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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 March 15 and September 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 United States 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 the MoFEC 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 — TERMINATION

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

ARTICLE V — REPRESENTATIVE; ADDRESSES

- 5.01. The Recipient's Representative is its Minister of Finance and Economic Cooperation.
- 5.02. The Recipient's Address is:

Ministry of Finance and Economic Cooperation
P.O. Box 1905
Addis Ababa
Federal Democratic Republic of Ethiopia

Telex: Facsimile:
21147 (251-11) 1551355

- 5.03. The Association's Address is:

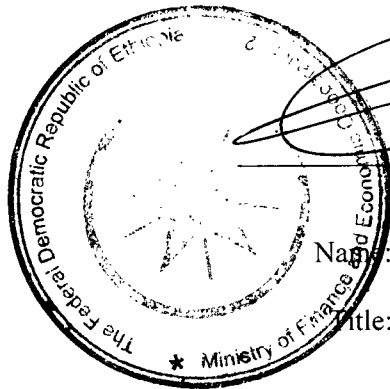
International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI)	1-202-477-6391

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
AHMED SHIDE
State Minister

Name: _____
Title: _____

INTERNATIONAL DEVELOPMENT ASSOCIATION

By



Authorized Representative

Name: Carolyn Turk

Title: Country Director

SCHEDULE 1

Project Description

The objective of the Project is to improve the efficiency, transparency and accountability of public expenditures of the Recipient at the federal and regional levels.

The Project consists of the following parts:

Part A: Improving Expenditure Management and Information Systems

1. Supporting existing and new information technology interventions, through: (i) facilitating the implementation of the Oracle Integrated Financial Management Information System at the federal and regional levels, including financing the IFMIS Project Management Office within MoFEC, supporting the acquisition and implementation of the audit software for the IFMIS, funding a quality assurance firm that will monitor the IFMIS roll out, and supporting the change management process; and (ii) upgrading the hardware of, and providing ongoing support for, the Integrated Budget and Expenditure Management System.
2. Supporting the institutionalization of public financial management training at the federal and regional levels.
3. Strengthening public financial management systems in key areas, including program based budgeting, treasury and cash management, internal audit, and Government accounting.
4. Assisting with the establishment of the IFMIS Academy for the purposes of provision of training in IFMIS operation and maintenance, developing standardized training materials and a qualifications framework for PFM that will be linked to professional accountancy qualifications, and with the increasing awareness of government officials in IFMIS and PFM.

Part B: Strengthening Accountability Institutions

1. Strengthening the Recipient's procurement and property management capacity, including: (i) staff certification program and capacity building activities in targeted sectors at federal and regional level; (ii) enhancing the capacity of federal and regional procurement regulatory bodies in market research, data collection and performance monitoring of procurement systems; and (iii) development and implementation of e-procurement system.

2. Strengthening the capacity of the Office of the Federal Auditor General and the Offices of the Regional Auditor General to enable them to fulfil their oversight role, through: (i) improving the quality of audit at the federal and regional levels; (ii) establishing an audit training school at the federal level; and (iii) improving communication and coordination with stakeholders.
3. Development of the accountancy profession in the Recipient's territory, including: (i) strengthening the institutional capacity of the Accounting and Auditing Board of Ethiopia to support in fulfilling its duties and responsibilities; (ii) assisting with the development of a professional accountancy organization; (iii) introduction of the internationally recognized national professional accountancy qualifications within the territory of the Recipient; (iv) continuous professional development initiatives, including provision of training to individual auditors and accountants on the application of international financial reporting and auditing standards; and (v) promoting collaboration among local, regional and international bodies and associations of accountants and auditors.
4. Strengthening the Recipient's institutional capacity for mitigation of fraud and corruption through: (i) provision of technical assistance to the Federal Ethics and Anticorruption Commission to undertake capacity assessment of Regional Ethics and Anticorruption Commissions in the Afar, Gambella and Somali regions, as well as addressing the weaknesses identified by the assessment; (ii) provision of cascaded training for Regional Ethics and Anticorruption Commissions' staff and Ethics Officers at the local level to improve recording and reporting of fraud and corruption cases and also information sharing practices; (iii) provision of training to the concerned woreda council standing committee members on follow-up of audit findings to strengthen internal control and oversight; and (iv) supporting Regional Ethics and Anticorruption Commissions on disclosure of cases and complaints- handling procedures to the public through media.

Part C: Project Management, Monitoring and Evaluation

1. Strengthening the institutional capacity of the Recipient for Project management, monitoring and evaluation, and reporting, including the capacity of Channel One Programs Coordination Office ("COPCO") for financial and procurement management, all through the provision of goods, consultants' services, Training, and financing of Operating Costs.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. EMCP Steering Committee

1. The Recipient shall maintain, throughout the implementation of the Project, a steering committee (“EMCP Steering Committee”), with a composition, mandate, and resources satisfactory to the Association. The EMCP Steering Committee shall meet at least once every six months in a fiscal year, and shall be chaired by the Minister of the MoFEC.
2. Without limitation to sub-paragraph (1) immediately above, the EMCP Steering Committee shall be responsible for providing policy guidance and oversight to ensure prompt and efficient implementation of the Project, including, among others: (i) reviewing and approving annual work plans and budget; (ii) advising on the resolution of technical issues in project implementation; and (iii) reviewing project reports and audits, all in accordance with the provisions of the Project Operational Manual.

B. EMCP PFM Committee

1. The Recipient shall maintain, throughout the implementation of the Project, a technical committee (“EMCP PFM Committee”), with a composition, mandate, and resources satisfactory to the Association. The EMCP PFM Committee shall meet at least once every month in a fiscal year, and shall be chaired by the State Minister of Public Finance, or in such minister’s absence, the Director of the EMCP.
2. Without limitation to sub-paragraph (1) immediately above, the EMCP PFM Committee shall be responsible for providing technical support to the Project, including, among others: (i) follow-up on annual work plans and budgets; and (ii) assist in resolving implementation issues, all in accordance with the provisions of the Project Operational Manual.

C. Project Implementation Team

1. The Recipient shall establish, not later than three months after the effectiveness of this Agreement, and thereafter maintain, throughout the implementation of the Project, a project implementation team (“Project Implementation Team” or “PIT”) within the MoFEC, with functions, staffing and resources satisfactory to the

Association, including the Head of the PIT, at least five PFM and/or IFMIS experts at the federal level and eleven experts at the regional level.

2. Without limitation to sub-paragraph (1) immediately above, the PIT shall be responsible for day-to-day administration of overall planning, coordination, the technical, environmental and social safeguards compliance, monitoring, evaluation, reporting and communication of the activities under the Project, all in accordance with the provisions of this Agreement and the Project Operational Manual.

D. COPCO

1. The Recipient shall maintain, throughout the implementation of the Project, Channel One Programs Coordination Office at MoFEC, with a composition, mandate, and resources satisfactory to the Association.
2. Without limitation to sub-paragraph (1) immediately above, COPCO shall be responsible for fiduciary (i.e. procurement and financial management) compliance, all in accordance with the provisions of the Project Operational Manual.

E. Anti-Corruption

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

F. Project Operational Manual

1. The Recipient shall ensure that the Project is implemented in accordance with the provisions of a manual satisfactory to the Association ("Project Operational Manual"), which shall include the following provisions: (a) institutional coordination and day-to-day execution of the Project; (b) Project budgeting, disbursement and financial management; (c) procurement; (d) monitoring, evaluation, reporting and communication of Project activities; and (e) such other administrative, financial, technical, and organizational arrangements and procedures as shall be required for the Project.
2. The Recipient shall not amend, abrogate, waive or fail to enforce any provision of the Project Operational Manual without the prior written agreement of the Association; provided, however, that in case of any conflict between the arrangements and procedures set out in the Project Operational Manual and the provisions of this Agreement, the provisions of this Agreement shall prevail.

G. Annual Work Plans and Budget

1. The Recipient shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association not later than March 31 in each calendar year, for the Association's consideration, a proposed work plan and budget of approved activities to be included in the Project for the following calendar year, such plan to include an implementation schedule and budget and financing plan therefor.
2. The Recipient shall afford the Association a reasonable opportunity to review and exchange views with the Recipient on such proposed plan, and the Recipient shall implement with due diligence and efficiency such work plan and budget as shall have been approved by the Association.

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 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.

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 and Non-consulting Services.** All goods 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 and Non-consulting Services

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding.
2. **Other Methods of Procurement of Goods and Non-consulting Services.** The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts specified in the Procurement Plan:
 - (a) National Competitive Bidding, subject to the following additional provisions:
 - (i) the Recipient's standard bidding documents for procurement of goods 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 the bidders may be included in bidding documents if the arrangements governing such undertakings are acceptable to the Association;

- (ii) if pre-qualification is used, the Association's standard prequalification document shall be used;
- (iii) no margin of preference shall be granted in bid evaluation on the basis of a bidder's nationality, origin of goods or services, and/or preferential programs such as, but not limited, to small and medium enterprises;
- (iv) 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;
- (v) bidders shall be given a minimum of thirty (30) days to submit bids from the date of availability of the bidding documents;
- (vi) all bidding for goods shall be carried out through a one-envelope procedure;
- (vii) 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;
- (viii) 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; and
- (ix) 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 the paragraph 1.16 (v) of the Procurement Guidelines;

(b) Shopping; and

(c) 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 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) Least-Cost Selection; (b) Selection based on Consultants' Qualifications; (c) Single-source Selection of consulting firms; (d) Selection of UN Agencies pursuant to paragraph 3.15 of the Consultant Guidelines; (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. Procurement of Operating Costs

Expenditures included in the Operating Costs category can be procured in accordance with the established Recipient's administrative procedures acceptable to the Association.

Section IV. Withdrawal of the Proceeds of the Financing

A. General

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 100 % (inclusive of Taxes) of Eligible Expenditures, consisting of goods, non-consulting services, consultants’ services, Operating Costs and Training.

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 except that withdrawals up to an aggregate amount not to exceed USD 3,000,000 equivalent may be made for payment made prior to this date but on or after January 1, 2016.
2. The Closing Date is April 7, 2020.

SCHEDULE 3

Repayment Schedule

Date Payment Due	Principal Amount of the Credit repayable (expressed as a percentage)*
On each March 15 and September 15, commencing March 15, 2022, to and including September 15, 2053	1.5625%

* 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

Section I. Definitions

1. “Annual Work Plans and Budget” means the annual work plans and budget for the activities under the Project approved by the Association in accordance with the provisions of Section I.G of Schedule 2 to this Agreement; and “Annual Work Plan and Budget” means any of the Annual Work Plans and Budget.
2. “Anti-Corruption Guidelines” means 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.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (revised July 2014).
4. “Channel One Program Coordination Office” or “COPCO” means the coordination unit referred to in Section I.D of Schedule 2 to this Agreement.
5. “EMCP” means Expenditure Management and Control Program adopted by MoFEC (as this term defined in paragraph 10 of this Appendix).
6. “EMCP Steering Committee” means the steering committee referred to in Section I.A of Schedule 2 to this Agreement.
7. “EMCP PFM Committee” means the technical committee referred to in Section I.B of Schedule 2 to this Agreement.
8. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010.
9. “IFMIS” means Integrated Financial Management Information System.
10. “Ministry of Finance and Economic Cooperation” or “MoFEC” means the Recipient’s ministry responsible for finance.
11. “Operating Costs” means incremental costs incurred by the Recipient on account of the Project coordination, implementation and monitoring, and by COPCO on account of financial and procurement management, including expenditures for vehicles operation and maintenance, office supplies and consumables, utilities, communication, translation and interpretation, bank charges, Project related travel, including per diem and accommodation, but excluding salaries of the Recipient’s

civil servants, and other miscellaneous costs directly associated with the Project implementation, all based on Annual Work Plans approved by the Association pursuant to Section I.G of Schedule 2 to this Agreement.

12. "Procurement Guidelines" means 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 (revised July 2014).
13. "Procurement Plan" means the Recipient's procurement plan for the Project, dated January 8, 2016, 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.
14. "Project Operational Manual" means the manual satisfactory to the Association, referred to in Section I.F of Schedule 2 to this Agreement.
15. "Training" means expenditures associated with 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, all based on Annual Work Plans approved by the Association pursuant to Section I.G of Schedule 2 to this Agreement.