Multi Donor Trust Fund Grant Agreement

(Promoting Basic Services Program – Phase III Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

(acting as an Administrator of the Multi-donor Trust Fund for the Cofinancing of the Promoting Basic Services Program Phase III Project)

Dated February 12, 2013
GRANT AGREEMENT

AGREEMENT dated February 12, 2013, entered into between: FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA ("Recipient"); and INTERNATIONAL DEVELOPMENT ASSOCIATION ("World Bank"), acting as an Administrator of the Multi-donor Trust Fund ("MDTF") for the cofinancing of the Protection of Basic Services Program (Phase III) Project ("PBS Phase III Project").

WHEREAS:

(A) Pursuant to a financing agreement entered into between the Recipient and the International Development Association dated October 18, 2012 (the "IDA Financing Agreement") ("IDA Credit No. 5162 - ET") for the PBS Phase III Project, the International Development Association granted the Recipient an amount equivalent to: three hundred ninety-seven million eight hundred thousand Special Drawing Rights (SDR 397,800,000) (variously, "Credit" and "Financing") to assist in financing the project described in Schedule 1 to this Agreement ("Project");

(B) the World Bank, acting as administrator of the MDTF provided by various donors for the Co-financing of the PBS Phase III Project, has agreed to make a grant ("Grant") referred to in Section 3.01 of this Agreement.

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, this Agreement, or in the IDA Financing Agreement.
Article II  
The Project

2.01. The Recipient declares its commitment to the objectives of the project described in Schedule 1 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 equivalent to six hundred twenty one million five hundred fourteen thousand dollars ($621,514,000) to assist in the financing of the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section II 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. In accordance with Section 3.02 of the Standard Conditions, the Recipient may withdraw the Grant proceeds subject to the availability of such funds.

Article IV  
Additional Remedies

4.01. The Additional Event of Suspension consists of the following, namely, that a situation has arisen which shall make it improbable that the PBS III 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: 4145 (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: AHMED SHIDE

State Minister
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION
(acting as an Administrator of the Multi-donor Trust Fund for the Co-financing of Promoting Basic Services Program – Phase III Project)

By: 12 Feb 2013
Authorized Representative
SCHEDULE 1

Project Description

The objective of the Project is to contribute to the higher-level objective of expanding access and improving the quality of basic services, by funding block grants that ensure adequate staffing and operations, and by strengthening the capacity, transparency, accountability and financial management of government at the Regional and Local Authorities levels.

The Project consists of the following Parts:

Part A: Support to Delivery of Basic Services (Subprogram A)

Supporting the delivery of basic services by Regional Governments and Local Authorities through the implementation of Subprogram A for core basic services which include education, health, water supply and sanitation, agriculture and rural roads.

Part B: Strengthening Local Transparency and Accountability Systems (Subprogram B)

1. Citizens' Engagement (Component B.1)

(a) Financial Transparency and Accountability (FTA) (Subcomponent B.1.a)

Provision of support for: (i) improvements in the quality of information available to the public by refining and simplifying the FTA tools so that the budget and service delivery information can be easily understood by citizens of different levels of educational attainment; (ii) refinements to the budget literacy training (BLT) modules, and providing BLT for Woreda citizens to raise awareness and understanding of public budgeting and planning process; (iii) continued rollout of the FTA tools at the Woreda and Kebele levels and disclosing budget and expenditure and service delivery information to citizens, using the FTA templates, mass media and other innovative ways of dissemination of information; (iv) extension of the FTA initiative to the transparency of audit and procurement information by developing FTA templates to disclose audit and procurement activities; (v) strengthening the local accountability structures (Woreda and Kebele council members) on Woreda planning and budgeting procedures, and enhance citizen participation by creating discussion forums on pre-budget process (planning stage); (vi) experience sharing and practical training on FTA initiatives in regional and/or international practices; (vii) orientation on service delivery templates for Woreda health, education, agriculture, water and Woreda finance offices; (viii) supply of billboards and suggestion boxes for posing templates and getting feedback in Regions and Woredas; and (ix) monitoring and benchmarking of progress made towards FTA objectives.
(b) **Support of Grievance Redress Mechanisms (GRM)(Subcomponent B.1.c).**

Provision of technical assistance to develop a common standard of grievance redress procedures and handling at the Regional level; capacity development and training for the grievance officers to be capable of applying the agreed standards; and information and public education of citizens on the opportunities and procedures for grievance handling in the Regions.

2. **Local Public Financial Management and Procurement (Component B.2)**

(a) Provision of goods and services to support public financial management capacity building at all levels of Government.

(b) Development of standardized training materials, to institutionalize delivery of training for Woreda staff in financial management and procurement systems.

(c) Development and dissemination of standardized manuals for public financial management.

(d) Support for roll-out of automated financial management software and affiliated hardware to Woredas.

(e) Strengthening of systems for external audit through OFAG and ORAGs.

(f) Provision of technical assistance and analysis to enable Woredas to have strengthened procurement systems.

(g) Provision of technical assistance to the public accounts committee of the Recipient’s National Assembly to enable strengthened parliamentary oversight over public financial management and procurement.

3. **Managing for Results (Component B.3)**

Provision of goods and services for: (a) monitoring of PBS Program results; (b) strengthening the multi-sectoral, decentralized system for credible, timely and available data; and (c) undertaking targeted surveys and studies that fill crucial gaps in the Recipient’s and development partners’ understanding of how PBS Program results can be sustainably achieved.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Section I, Section II, and Section III of Schedule 2 to the IDA Financing Agreement shall apply to this Agreement, mutatis mutandis.

Section II. Withdrawal of Grant Proceeds

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 USD)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Subprogram A</td>
<td>591,834,000</td>
</tr>
<tr>
<td>(2) Subprogram B</td>
<td>5,340,000</td>
</tr>
<tr>
<td>(3) Subprogram B.2</td>
<td>16,490,000</td>
</tr>
<tr>
<td>(4) Subprogram B.3</td>
<td>7,850,000</td>
</tr>
<tr>
<td>(5) Unallocated</td>
<td></td>
</tr>
<tr>
<td>TOTAL</td>
<td>621,514,000</td>
</tr>
</tbody>
</table>
3. The Recipient may withdraw the proceeds of the Financing to finance 100% (inclusive of Taxes) of Eligible Expenditures, provided, however, that the Recipient shall take due measures satisfactory to the World Bank to demonstrate that the expenditures for which eligibility for the Financing is claimed are and will remain exclusively financed from the Financing and not from any other source.

B. Withdrawal Conditions; Withdrawal Period

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

   (a) for payments made in respect of expenditures incurred prior to the date of this Agreement

   (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 expenditures, satisfactory to the Association, has been delivered to the World Bank; (B) the relevant JRIS has concluded successfully, in the opinion of the World Bank, enabling a determination of the total donor contribution amount for financing such eligible expenditures in the corresponding period, and the shares to be allocated to each funding source, taking into account the Pooled Funding Partners’ assessment of the Recipient’s performance under the Project (the Core PBS Principles performance assessment); and (C) satisfactory interim financial reports, prepared for two successive quarters in accordance with the provisions of Section II.B.2 of Schedule 2 to the IDA Financing Agreement, relating to the Subprogram A expenditures for the relevant Project period, have been delivered to the World Bank.

   (c) under any of Categories (2), (3), or (4), unless the World Bank has confirmed in writing that: (A) the annual work plan for the corresponding Subprogram (Subprograms B.1, B.2 and B.3, respectively) satisfactory to the World Bank, has been delivered to the World Bank; and (B) satisfactory interim financial reports, prepared in accordance with the provisions of Section II.B.2 of Schedule 2 to the IDA Financing Agreement, for the expenditures under the relevant Subprogram, and relating to the relevant Project period, have been delivered to the World Bank.

2. The Closing Date is December 31, 2017.