Financing Agreement

(Sustainable Land Management Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 13, 2008
AGREEMENT dated June 13, 2008, 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 grant in an amount equivalent to twelve million five
hundred thousand Special Drawing Rights (SDR 12,500,000) (“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 Payment Dates are May 15 and November 15 in each year.

2.05 The Payment Currency is Dollar.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project which is
described in Schedule 1 to this Agreement. To this end, the Recipient shall carry out the
Project 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 — REMEDIES OF THE ASSOCIATION

4.01. The Additional Event of Suspension consist that a situation shall have arisen which
shall make it improbable that the Project or a significant part thereof will be carried out.

4.02. The Co-financing deadline for the effectiveness of the Co-financing Agreement is
October 1, 2008.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Conditions of Effectiveness consist of the following:

(a) The Co-financing Agreement has been executed and delivered and all
conditions precedent to its effectiveness or to the right of the Recipient to make
withdrawals under it (other than the effectiveness of this Agreement) have been
fulfilled.

(b) The Recipient has established the SLM Support Unit in MoARD consisting of a
national Project coordinator, financial management specialist, a procurement
specialist, and monitoring and evaluation specialist, all with qualifications,
experience and terms of reference satisfactory to the Association.

(c) The Recipient has adopted a Project Implementation Manual, including a
financial management manual and chart of accounts to report on Project
activities; samples of the formats for Project interim financial reports; audit
terms of reference; and a Project procurement manual; in each case in form and
substance satisfactory to the Association.

5.02. The Effectiveness Deadline is the date one hundred twenty (120) days after the date of
this Agreement.

5.03. 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 years after the date of this Agreement.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. Except as provided in Section 2.02 of this Agreement, the Recipient’s representative is the Minister responsible for finance and economic development.

6.02. The Recipient’s Address is:

Ministry of Finance and Economic Development
P. O. Box 1905
Addis Ababa
Ethiopia

Cable:  Telex:  Facsimile:
MINFIN  21147  (251-111) 551355

6.03. 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
AGREED at Addis Ababa, Federal Democratic Republic of Ethiopia, as of the day and year first above written.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s Sufian Ahmed

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kenichi Ohashi

Authorized Representative
SCHEDULE 1

Project Description

The objectives of the Project are to reduce land degradation in agricultural landscapes and improve the agricultural productivity of small holder farmers in selected watersheds identified in the Program Implementation Manual.

The Project consists of the following three Parts:

Part A: Watershed Management

Support for scaling up of best practices in sustainable land management and technologies by smallholder farmers in high potential or food secure areas. This Part consists of four sub-parts:

1. Capacity Building

(a) Provision of capacity building services to the Recipient’s Ministry of Agriculture and Rural Development, Regional Bureaus of Agriculture and Rural Development, Woreda Offices of Agriculture and Rural Development, development agents, and local communities on community-based approaches to watershed planning and management using MoARD’s Community-Based Watershed Management Guidelines;

(b) Provision of equipment;

(c) Development of on-farm demonstration sites for reclaiming and improving the productivity of acidic soils;

(d) Upgrading of MoARD’s World Overview of Conservation Approaches and Technologies (WOCAT) information management system including developing improved protocols for collecting peer review information on best management practices and providing structured exchange of knowledge between practitioners, researchers and farmers;

(e) Provision of capacity building services to MoARD by means of Training and expert participation in the selection of best management practices; and

(f) Production and dissemination of information products for policy makers, extension workers and other stakeholders.
2. **Communal Land and Gully Rehabilitation**

Stabilizing hillsides and degraded communal lands and gullies through:

(a) Provision of advisory services and forums for communities to develop local by-laws to govern the use of communal lands;

(b) Carrying out of Sub-projects involving reclamation of degraded communal lands, hillsides and gullies through measures such as terraces, forage contour bunds, reforestation, afforestation, deep-trenching, interventions to ameliorate acidic or saline-sodic soils; building of check dams, reshaping, cultivation with multi-purpose perennial trees, shrubs and grasses; and

(c) Provision of relevant goods and equipment including *inter alia* hand tools, seeds, seedlings, and fencing materials.

3. **Farmland and homestead development**

Reducing soil erosion and improving agricultural productivity on individual farmlands and homesteads through:

(a) Provision of advisory services; and

(b) Carrying out of Sub-projects involving application of soil and water conservation measures including introduction of high value crop varieties such as horticulture and orchard development, forage and grassland development, restoration and sustenance of soil fertility, improvement of water use efficiency in smallholder farming systems, and establishment of woodlots.

4. **Community infrastructure**

Carrying out of Sub-projects involving construction of small-scale community-based infrastructure such as water harvesting systems including farm ponds, storage tanks, roadside flood harvesting, and spring development.

**Part B: Rural Land Certification and Administration**

Strengthening of tenure security for smallholder farmers by scaling-up the enhanced land certification process through:
1. Provision of Training to upgrade the organizational, technical and managerial capacity of existing institutions/units responsible for land administration at the Federal, Regional and Woreda levels and in the judiciary;

2. Supporting land certification interventions, including cadastral surveying parcel-based land registration, and developing registries for rural land in Woredas participating in watershed management activities; and

3. Provision of relevant goods and equipment including hand held global position system (“GPS”) devices and maps.

**Part C: Project Management**

Provision of capacity building services including: financial management, procurement, and monitoring and evaluation, to MoARD, including the SLM Support Unit, the National SLM Steering Committee, and the Regional, Woreda, and Kebele agencies responsible for sustainable land management, to effectively support coordination and implementation of the Project.
SCHEDULE 2

Project Execution

Section I. Institutional and Implementation Arrangements

A. Institutional Arrangements

1. The Recipient shall ensure that the National SLM Steering Committee; National Technical Committee; SLM Support Unit; BoARD; Woreda Office of Agriculture and Rural Development (WOARD); and Kebele Watershed Development Committee (KWDC) are maintained at all times during the implementation of the Project with functions, staffing and resources satisfactory to the Association so as to ensure prompt and efficient implementation of the Project.

MOARD

Without limitation to paragraph 1 of this Part A, the MoARD shall be responsible for Project coordination and implementation.

(a) National SLM Steering Committee

(i) Without limitation to paragraph 1 of this Part A, the National SLM Steering Committee (“the Steering Committee”) shall be chaired by the State Minister for Natural Resources, MoARD, and including representatives from the Ministry of Finance and Economic Development (MoFED), the Ministry of Water Resources (MoWR), the Environmental Protection Authority (EPA), the Ethiopia Institute for Agricultural Research (EIAR), and the Regional administrations.

(ii) The Steering Committee shall be responsible for: (a) establishing policy guidelines and providing overall supervision for Project implementation; (b) approving the annual Federal and Regional work program and budget; (c) approving the annual Procurement Plan; (d) reviewing the annual implementation performance report prepared by the SLM Support Unit; and (e) overseeing the implementation of corrective actions when necessary.
(b) National Technical Committee

(i) Without limitation to paragraph 1 of this Part A, the National Technical Committee shall include senior technical staff from MoARD, MoWR, EPA, EIAR, and the Ethiopia Development Research Institute.

(ii) The National Technical committee shall provide technical advice to the MoARD on the quality of implementation reports and special studies such as policy documents, guidelines, documentation of best practices, and monitoring & evaluation reports.

(c) SLM Support Unit

Without limitation to paragraph 1 of this Part A, the SLM Support Unit shall be responsible for the day-to-day management of the Project implementation, including: (a) preparing annual work plans and progress reports; (b) monitoring and supervising overall implementation progress and evaluation of Project impacts; (c) financial administration; (d) procuring goods and services at the federal level and supporting procurement management at the Woreda and Kebele levels; and (e) providing administrative support to the National SLM Steering Committee and the National Technical Committee.

(d) BoARD

Without limitation to paragraph 1 of this Part A, the respective Bureaus of Agriculture and Rural Development (BoARD) of each Region shall lead the implementation of the relevant Project activities at the Regional level. BoARDs shall approve and consolidate annual work plans and implementation progress reports submitted by the constituent Woredas, which reports shall be submitted to the SLM Support Unit.

(e) Woreda Office of Agriculture and Rural Development (WOARD) and Kebele Watershed Development Committee.

Without limitation to paragraph 1 of this Part A, the Woreda Office of Agriculture and Rural Development, the Kebele Watershed Development Committee and communities shall jointly undertake on-the-ground implementation of the relevant Project activities at the Woreda and sub-district levels. The WOARD and KWDC shall inter alia assist communities to: (a) develop annual work plans and budgets; (b) facilitate community participation in watershed development planning and rehabilitation in accordance with the Community-Based Participating Watershed Development Planning Guidelines; (c) provide Training; (d) carry out monitoring and
evaluation; (e) disseminate innovations in SLM; and (f) implement land certification and administration activities at the Woreda and Kebele levels.

B. Implementation Arrangements

1. Project Implementation Manual

The Recipient shall implement the Project in accordance with the arrangements and procedures set out in the Project Implementation Manual (provided, however, that in case of any conflict between the arrangements and procedures set out in the Project Implementation Manual and the provisions of this Agreement, the provisions of this Agreement shall prevail), and, except as the Recipient and the Association shall otherwise agree, the Recipient shall not amend or waive any provision of the Project Implementation Manual, if in the opinion of the Association, such amendment or waiver shall materially or adversely affect the carrying out of the Project or the achievement of the objectives thereof.

2. Annual Work Program

   (a) The Recipient shall prepare and furnish to Association for its approval, not later than March 31 of each year during the implementation of the Project, or such later date as the Association may agree, the annual work plans and budgets containing all proposed Sub-projects to be carried out in the following Fiscal Year, modified in a manner satisfactory to the Association, taking into account the Association’s comments and views on the matter.

   (b) The Recipient shall cause each participating Woreda and Kebele to implement, monitor and evaluate its respective Sub-projects in accordance with the provisions set forth in this Agreement and in more detail in the Project Implementation Manual, and shall not make or allow to be made any material change to any Sub-project included in the approved annual work plans and budgets without consultation with the Association.

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 Management

1. The Recipient shall ensure that, prior to authorizing the commencement of any Project activities including financing of any Sub-projects likely to have detrimental environmental or social impacts, an appropriate environmental impact assessment shall
have been undertaken, and that in the case of the identified environmental or social risks, appropriate action plans are adopted and carried out in accordance with the provisions of the Environmental and Social Management Framework (ESMF).

2. The Recipient shall regularly review the effective use of the ESMF as part of the monitoring and evaluation system for the SLM Project.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

1. (a) 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 set forth below in sub-paragraph (b) of this paragraph. Each Project Report shall cover the period of one calendar year, and shall be furnished to the Association not later than three months after the end of the period covered by such report.

(b) The performance indicators referred to above in sub-paragraph (a) consist of the following:

(i) Percentage increase in area under sustainable land management practices in the targeted watersheds.

(ii) Percentage increase in agricultural productivity (for dominate crops and livestock).

(iii) Percentage of development agents and Woreda experts in the Project area using information on best management practices in sustainable land management from MoARD’s knowledge management system.

(iv) Percentage increase in the number of beneficiary farmers with a sense of tenure security compared with non-beneficiaries.

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 60 days after the end of each
financial quarter, interim unaudited financial reports for the Project covering the quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have the 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 months after the end of such period.

Section III. Procurement

A. General

1. Goods and Works. All goods and works 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 dated May 2004 and revised in October 2006, 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 dated May 2004 and revised in October 2006, 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 the Procurement Guidelines, or 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 Bank’s standard pre-qualification 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 are not 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 methods of procurement, other than International and National Competitive Bidding, may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used: (a) Direct contracting; (b) Community Participation in Procurement procedures as further elaborated in the Procurement Plan or the Project Implementation Manual; (c) Shopping; and (d) Procurement from United Nations Agencies.

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 of procurement, other than Quality and Cost-based Selection, may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used: (a) Single Source Selection; (b) Selection of Individual Consultants; (c) Least Cost Selection; (d) Selection Based on Consultants Qualifications.

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.

**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:
**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 US$335,000 equivalent may be made for payments made prior to this date but on or after March 11, 2008, for Eligible Expenditures under Categories (1) to (3).

2. The Closing Date is September 30, 2013.

**Section V. Other Undertakings**

A. The Recipient undertakes:

(1) to hire by January 7, 2009, a Project accountant in each Region to support Project financial activities with qualifications and terms of reference acceptable to the Association; and

(2) without limitation to the provisions of paragraph B.1. of Section II of this Schedule, to provide by January 7, 2009, through the Project Finance Division at MoARD, financial management Training programs to all staff at the

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
<th>Percentage of Expenditures to be Financed (exclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Subprojects under Part A.2, A.3 and A.4 of the Project</td>
<td>8,600,000</td>
<td>67% of the amounts disbursed</td>
</tr>
<tr>
<td>(2) Goods, Training and consultants’ services for the Project</td>
<td>2,600,000</td>
<td>67%</td>
</tr>
<tr>
<td>(3) Operating Costs</td>
<td>200,000</td>
<td>67%</td>
</tr>
<tr>
<td>(4) Unallocated Amounts</td>
<td>1,100,000</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>12,500,000</strong></td>
<td></td>
</tr>
</tbody>
</table>
Regional and Woreda levels involved in financial management of the Financing and the Co-financing, under terms of reference acceptable to the Association, and thereafter to continue to provide to new and existing staff such Training as needed, along with adequate resources, to support these activities.
APPENDIX

Definitions


2. “BoARD” means any Bureau of Agriculture and Rural Development at the Regional level.

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


5. “Co-financing” means an amount of nine million United States Dollars (US$9,000,000), to be provided by the Co-financier to assist in financing the Project.

6. “Co-financing Agreement” means the agreement between the Recipient and the Co-financier providing for the Co-financing.

7. “Community-Based Participatory Watershed Development Planning Guidelines” means the regulatory guidelines adopted by the MoARD (as hereinafter defined) in 2005 for purposes of establishing sustainable land management practices and containing inter alia, methods and standards on design and implementation, conservation measures within watersheds in the territory of the Recipient.


9. “Environmental and Social Management Framework” (“ESMF”) means the Recipient’s plan, dated January 18, 2008, that includes the set of mitigation, enhancement, monitoring, and institutional measures to be taken during implementation of the Project to eliminate any adverse environmental and social impacts, offset them, reduce them to acceptable levels, or to enhance positive impacts. The measures include inter alia: clear procedures and methodologies for the environmental and social assessment, review, approval and implementation of investments to be financed under the Project; appropriate roles and responsibilities, and necessary reporting procedures for managing and monitoring environmental and social concerns related to proposed Sub-projects; and practical information resources for implementing the ESMF.
10. “Environmental Protection Authority” or “EPA” means the entity established by the Recipient pursuant to Proclamation No. 295/2002.

11. “Ethiopia Development Research Institute” or “EDRI” means the entity established by the Recipient pursuant to Council of Ministers Regulation No. 54/99.

12. “Ethiopia Institute for Agricultural Research” or “EIAR” means the entity established by the Recipient pursuant to Proclamation No.79/97, as amended to date.

13. “Fiscal Year” and “FY” mean the Recipient's fiscal year beginning July 8 and ending July 7 of the next calendar year.


15. “Kebele” means the lowest tier of government in the Recipient’s administrative system as established under the relevant Regional legislation.

16. “Kebele Watershed Development Committee” means any committee described in paragraph 1 (e) of Section I.A of Schedule 2 of this Agreement or the successor thereto.

17. “MoARD” means the Recipient’s Ministry of Agriculture and Rural Development.


20. “National SLM Steering Committee” means the committee established for the coordination of activities to be carried out under the Project, and referred to in paragraph (a) of Section I.A.1 of Schedule 2 to this Agreement or the successor thereto.

21. “National Technical Committee” means the committee established for the coordination of activities to be carried out under the Project, and referred to in paragraph (b) of Section I.A.1 of Schedule 2 to this Agreement or the successor thereto.

22. “Operating Costs” means the incremental costs incurred by MoARD, BoARD, WoARD and WoFED based on annual budgets approved by the Association, on account of Project implementation, management and monitoring, including fuel and operation and maintenance costs for vehicles; stationary and sundries; advertising and office running costs including services of office machines and equipment; purchase of
materials for workshops; office supplies; communication charges; and venues for workshops and Training.


24. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated March 11, 2008 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.

25. “Project Implementation Manual” means the manual referred to in Section 5.01 (c) of this Agreement consisting of different modules setting out respectively, *inter alia*, the administrative, financial and accounting procedures; criteria for selection of the watersheds included in the Project; the procurement and disbursement procedures; the terms and conditions for related grant agreements and financing agreements, including procurement and accounting procedures; performance indicators to be used for the Project, and other activities and arrangements to be used for the purpose of implementing the Project, to be adopted by the Recipient not later than the Effective Date, as the same may be amended from time to time.

26. “Region” means the following six Regional States: Amhara, Oromiya, Tigray, SNNP, Beneshangul Gumuz and Gambela within the Recipient’s territory as defined under the Recipient’s Constitution.

27. “SLM Support Unit” means the unit established within the MoARD for the coordination of activities to be carried out under the Project, as referred to in paragraph (c) of Section I.A 1 of Schedule 2 to this Agreement or the successor thereto.

28. “Sub-project” means a sub-project to be carried out by participating Woredas and Kebeles, communities and or farmers in accordance with the Project Implementation Manual.

29. “Training” means the Project-related expenses incurred by MoARD, BoARD, WOARD and WoFED based on annual budgets approved by the Association, for per diem, travel, purchase of Training materials and rental of facilities, and includes workshops and seminars.

30. “WOARD” means any Woreda Office for Agriculture and Rural Development.

31. “WoCAT” means the World Overview of Conservation Approaches and Technologies a network of soil and water conservation specialists from all over the world organized as a consortium of national and international institutions ([www.wocat.net](http://www.wocat.net)).
32. “Woreda” means the third tier of government in the Recipient’s administrative system as established under the relevant Regional legislation.