Financing Agreement

(Protection of Basic Services Program – Phase II Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 16, 2009
FINANCING AGREEMENT

AGREEMENT dated May 16, 2009 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 the Financing Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to one hundred fifty-four million three hundred thousand Special Drawing Rights (SDR 154,300,000) (variously, “Credit” and “Financing”) and a grant in an amount equivalent to two hundred seven million five hundred thousand Special Drawing Rights (SDR 207,500,000) (variously, “Grant” 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2.04 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 May 15 and November 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 the Dollar.

ARTICLE III — PROJECT

3.01. The Recipient declares its commitment to the objectives of the Project and the Program. To this end, the Recipient shall carry out Parts 1 and 4 of the Project through MOFED, Part 2 of the Project through MOH, Part 3 through MOFED in collaboration with MCB, the Public Procurement Agency and the Central Statistics Agency, all 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

4.01. The Additional Event of Suspension 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 — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following:

(a) The Recipient has adopted the PBS Operational Manual in form and substance satisfactory to the Association.

5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.
ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is the Minister at the time in charge of finance and economic development.

6.02. 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

6.03. The Association’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 64145 (MCI)
        Washington, D.C.  Facsimile: 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 objective of the Project 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 local accountability in service delivery.

The Project consists of the following parts:

**Part 1: Support to Delivery of Basic Services (Subprogram A)**

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

(ii) Supporting the implementation, on a pilot basis, of a multi-sector specific purpose grant for capital investment in the health, education, agriculture, water and sanitation, and rural roads sectors at the local level through the implementation of a Local Investment Grant scheme as Subprogram A(ii).

**Part 2: Health MDGs Support Facility (Subprogram B)**

Carrying out of Subprogram B by contributing funds to support the attainment of health-related MDGs, in line with the goals, objectives and priorities of the Health Sector Development Program, for:

(i) critical inputs for primary health service delivery such as vaccines, contraceptives, long-lasting insecticide-treated mosquito nets, malaria drugs, insecticides, spray pumps; emergency drugs; laboratory equipment; medical equipment and supplies; and

(ii) health systems strengthening, including capacity building interventions to MOH and PFSA.
Part 3: Transparency and Accountability (Subprogram C)

(i) Strengthening public financial management in two activities: (a) strengthening Woreda systems through the rolling out of the existing IBEX system from Regions to Woredas, providing support for the ongoing upgrading of IBEX, and training of accountants; and (b) improving accountability regarding use of resources by strengthening the internal audit and external audit function and parliamentary oversight at the Federal level and in the Regions and supporting continuous audit process.

(ii) Supporting the dissemination of public procurement regulations and documents at decentralized levels through the publication and dissemination of public procurement proclamations, directives, standard bidding documents, and a public procurement manual; provision of technical assistance; and training for the Federal and Regional procurement agents.

(iii) Strengthening transparency and accountability by supporting: (a) the continued roll out of financial transparency and accountability tools at the Regional, Woreda and Kebele levels; (b) full implementation of budget literacy and media dissemination activities underpinning financial transparency and accountability; (c) strengthening of local accountability structures and Woreda community planning and budgeting activities; (d) capacity building on financial transparency and accountability approaches; and (e) monitoring and benchmarking of progress made towards financial transparency and accountability objectives.

Part 4: Monitoring and Evaluation (Subprogram D)

Carrying out of Subprogram D to strengthen existing national and sectoral monitoring and evaluation systems and assessments to be implemented by lead government agencies, including: (i) strengthening sectoral administrative data reporting systems; (ii) a series of activities to strengthen the existing monitoring tools of the PBS Program; (iii) targeted support to the Central Statistics Agency to strengthen the surveys and expand its data network; and (iv) supporting the Ministry of Water Resources’ rollout of its new WaSH MIS to several Woredas.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. General

1. The Recipient shall carry out the Project in accordance with the PBS Operational Manual throughout the period of implementation of the Project. The Recipient shall ensure that any amendments and revisions to the PBS 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 Association and Contributing Partners prior to its finalization and adoption.

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

3. Without limitation upon the provisions of paragraph 1 of this Section I.A. the Recipient shall carry out Part 1(ii) of the Project in accordance with the LIG Operational Manual. In case of conflict between the provisions of the LIG Operational Manual and the FA, the latter shall prevail.

B. Subprograms A, C, and D

1. Ministry of Finance and Economic Development

(a) At the federal level, the Recipient shall cause MOFED to be responsible for coordination, monitoring and oversight of the implementation of Parts 1, 3, and 4 of the Project in accordance with the PBS Operational Manual. For this purpose, MOFED shall liaise with Pooled Funding A, C, and D Partners as required. MOFED’s primary responsibilities shall include:

(i) 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;
(ii) making timely transfers of Subprogram C and D resources to various collaborating agencies, including CSA, OFAG and ORAGs, as defined in the PBS Operational Manual;

(iii) 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;

(iv) with support from the EMCP Coordination Office, improving financial transparency and accountability for public expenditures and basic services delivery at Regional, local and service facility levels;

(v) coordinating with the Key Line Ministries, their counterpart Regional sector bureaus and Woreda sector offices, as necessary, for the implementation of Parts 1, 3 and 4 of the Project;

(vi) ensuring that Regional sector bureaus and Woreda sector offices disseminate service facility related information;

(vii) ensuring effective collaboration and coordination with relevant programs (e.g. PSCAP, Good Governance/DLDP); and

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

(b) At the Federal level, the EMCP Coordination Office of MOFED will have overall responsibility for the oversight, coordination, and monitoring and evaluation of Part 3 of the Project. The EMCP Steering Committee will play an oversight role on the execution of overall financial transparency and accountability initiatives.

(c) 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.
(d) 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.

(e) At the Regional level, the Recipient shall cause Bureaus of Finance and Economic Development to:

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

(ii) coordinate Project implementation of Subprograms A, C, and D, and launch start-up activities;

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

(iv) determine Woredas’ allocations for LIG as per MOFED guidelines and inform WOFED of these LIG allocations;

(v) in collaboration with Regional Bureaus of Capacity Building, coordinate, manage and monitor the implementation of financial transparency and accountability activities at regional level;

(vi) review and consolidate progress reports from Local Authorities, and provide feedback, as necessary; and

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

(f) 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.
2. **Ministry of Capacity Building**

The Recipient shall cause the MCB at the Federal level and bureaus at Regional and local levels to collaborate closely with MOFED in the overall coordination and implementation of Part 3 of the Project in accordance with the PBS Operational Manual, ensuring appropriate focus on the capacity building aspects of planned interventions, fostering proper alignment with national capacity building efforts, and building on the experience of related ongoing programs and interventions.

C. **Subprogram B**

1. **Ministry of Health**

(a) The Recipient shall cause the MOH to be responsible for overall implementation of Subprogram B in accordance with the PBS Operational Manual. MOH will be supported by its Policy Planning and Finance General Directorate in the day-to-day management and coordination of Subprogram activities, including the management of activities related to financial management and reporting and disbursements.

(b) The *Central Joint Steering Committee, Regional Joint Steering Committees* and *Woreda Joint Steering Committees* at Federal, Regional and local levels, respectively, will have oversight responsibility and facilitate implementation of priority areas of HSDP at their respective levels.

(c) Without limitation to the generality of paragraph (b) above, the Recipient shall cause CJSC to ensure that:

(i) procurement and logistics plans are appropriately drawn up and implemented;

(ii) procurement of goods and other activities financed under the Project is timely and commodities are efficiently and equitably distributed to beneficiary institutions in the Regions and at local levels;

(iii) capacity building plans are fully implemented;
(iv) quarterly meetings are held with RJSCs to assess the implementation of Subprogram B and make recommendations, as necessary; and

(v) regular quarterly reports are provided to the Recipient on the status of implementation of Subprogram B for consolidation into the Project Reports submitted to the Association.

(d) Without limitation to the generality of paragraph (b) above, the functions of RJSCs in the implementation of Subprogram B shall include:

(i) regular supervision of implementation of Subprogram B in the Region concerned;

(ii) overseeing, coordinating and facilitating implementation of the health sector program;

(iii) regular monitoring of implementation of Regional plans;

(iv) holding of quarterly meetings with WJSCs to assess the status of implementation and agree on next steps; and

(v) participation in quarterly meetings of the CJSC and submission to it of regular quarterly reports covering aspects such as finance, service delivery outputs and outcomes, availability of technical staff and commodities, challenges encountered during implementation and actions taken.

(e) Without limitation to the generality of paragraph (b) above, the responsibilities of WJSCs in the implementation of Subprogram B shall include:

(i) regular transportation of commodities and equipment from designated medical stores to health institutions at local levels;

(ii) ensuring of timely, need-based distribution of items to health facilities;

(iii) review of monthly institutional reports and provision of recommendations, as necessary;
(iv) holding of quarterly meetings to assess implementation status and agree on next steps;

(v) submission of quarterly reports to the relevant RJSC; and

(vi) participation in RJSC quarterly meetings.

2. MOH, through the Pharmaceutical Fund and Supply Agency (PFSA), will be responsible for the management, implementation, and coordination of the procurement and distribution of health commodities, including medical supplies and equipment.

D. **Subprogram A(ii) (Local Investment Grants)**

1. The Recipient shall cause the organ described in Section I.B.1(c) of this Agreement, or other department to be designated by MOFED, to be responsible for the overall implementation, coordination, monitoring and oversight of Subprogram A(ii) in accordance with the LIG 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. **Environmental and Social Safeguards**

1. The Recipient shall carry out the Project in accordance with the: (i) Guidelines for Handling and Disposal of Medical Waste; (ii) Guidelines for Malaria Vector Control; and (iii) Guidelines for Indoor Residual Insecticide Spraying.

2. The Recipient shall:

   (a) ensure that the pilot LIG component under Part 1(ii) of the Project is carried out in accordance with the Environmental and Social Management Framework (ESMF) and the Resettlement Policy Framework (RPF) prepared for the purposes of the construction of small-scale civil works under Subprogram A(ii).

   (b) in cases of any activity to be undertaken under a Local Investment Grant under Part 1(ii) of the Project requiring the adoption of an EMP or RAP,
(i) proceed to have such EMP or RAP, as the case may be:
(A) prepared in accordance with the ESMF or RPF, as the case may be, and (B) thereafter adopted by the relevant Local or other authority, prior to implementation of the activity; and

(ii) thereafter take such measures as shall be necessary or appropriate to enable the Local Authority or other authority to comply with the requirements of such EMP or RAP, as the case may be.

(c) in the case of any Resettlement Activity involving Project Affected Persons, ensure that no displacement, loss, or restriction of access shall occur before necessary resettlement measures consistent with the RPF and RAP are in place, including full payment to Project Affected Persons of compensation and of other assistance required in accordance with the RPF.

3. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall, beginning no later than 3 months after the effectiveness of this Agreement, regularly collect, compile and submit to the Association, on an annual basis, reports in form and substance satisfactory to the Association, on the status of compliance with the ESMF, RPF, and EMPs and RAPs, if any, giving details of:

(a) measures taken in furtherance of such ESMF, RPF, and EMPs and RAPs, if any;

(b) conditions, if any, which interfere or threaten to interfere with the smooth implementation of such ESMF, RPF, and EMPs and RAPs, if any; and

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

Section II. Project Monitoring, Reporting, 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 in sub-paragraph (b) below. Each Project Report shall cover a period of six (6) months, and shall be furnished to the Association not later than three (3) 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) Net enrollment rates for Grade 1-8 and Gender Parity Index for Grades 1-4;
(ii) Proportion of children vaccinated against DPT3+HepB3+Hib3 and measles;
(iii) Proportion of births attended by skilled health personnel;
(iv) Reduced lab confirmed malaria cases;
(v) Proportion of rural and urban population with access to potable water;
(vi) Cumulative number of farmers (in millions) trained in the agricultural minimum package;
(vii) Percentage of Kebele centers connected by all-weather road/s;
(viii) The proportion of citizens who report that they have knowledge about the Woreda budget; and
(ix) The proportion of citizens who report that Woreda officials have actively sought the views of people in their Kebele on quality of basic services.

2. During Project implementation, the Recipient shall ensure that at least six Joint Budget and Aid Reviews (JBARs) are carried out, pursuant to the provisions of the PBS Operational Manual, with the involvement of Regions and sectors. Unless otherwise agreed with the Association, the JBARs shall be carried out according to the following schedule:

(a) First JBAR no later than June 30, 2009.
(b) Second JBAR in October/November 2009.
(c) Third JBAR in April/May 2010.
(d) Fourth JBAR in October/November 2010.

(e) Fifth JBAR in April/May 2011.

(f) Sixth JBAR in October/November 2011.

B. **Financial Management, Financial Reports and Audits**

1. The Recipient shall maintain a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.

2. Without limitation to the provisions of Part A of this Section, the Recipient shall prepare and furnish to the Association: (a) not later than forty-five (45) days after the end of each Ethiopian fiscal quarter for Subprograms A(i), A(ii) and B, and not later than seventy-five (75) days after the end of each Ethiopian fiscal quarter for Subprograms C and D, interim unaudited financial reports for the Project covering such quarter, in form and substance satisfactory to the Association; (b) not later than ninety (90) days after the end of each Ethiopian fiscal quarter, quarterly expenditure reports for Subprograms A(i) and A(ii) 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 Ethiopian Fiscal Year. 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.

4. The Recipient shall also cause OFAG to audit, on a continuous basis, samples of Regions and Local Authorities that have received funds under Subprograms A(i) and A(ii) of such scope and detail as shall have been agreed with the Association. The Recipient shall cause OFAG to provide the Association 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. **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, and with the provisions of this Schedule.

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 Schedule.

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

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 Credit and the Grant, respectively, 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:

   (a) for payments in respect of expenditures incurred prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed the equivalent of one hundred eight million Dollars (US$108,000,000) may be made in respect of Eligible Expenditures

<table>
<thead>
<tr>
<th>Categories</th>
<th>Amount of the Credit Allocated (expressed in SDR)</th>
<th>Amount of the Grant Allocated (expressed in SDR)</th>
<th>% of expenditures to be financed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Subprogram A(i)</td>
<td>137,500,000</td>
<td>162,600,000</td>
<td>Such percentage of Eligible Expenditures as the Association may determine for each six monthly period of the EFY</td>
</tr>
<tr>
<td>2. Subprogram A(ii)</td>
<td>16,800,000</td>
<td></td>
<td>Such percentage of Eligible Expenditures as the Association may determine for each six monthly period of the EFY</td>
</tr>
<tr>
<td>3. Subprogram B</td>
<td></td>
<td>6,700,000</td>
<td>Such percentage of Eligible Expenditures as the Association may determine for each six monthly period of the EFY</td>
</tr>
<tr>
<td>4. Subprogram C</td>
<td></td>
<td>20,100,000</td>
<td>Such percentage of Eligible Expenditures as the Association may determine for each six monthly period of the EFY</td>
</tr>
<tr>
<td>5. Subprogram D</td>
<td></td>
<td>4,700,000</td>
<td>Such percentage of Eligible Expenditures as the Association may determine for each six monthly period of the EFY</td>
</tr>
<tr>
<td>6. Unallocated</td>
<td></td>
<td>13,400,000</td>
<td></td>
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<tr>
<td><strong>TOTAL</strong></td>
<td><strong>154,300,000</strong></td>
<td><strong>207,500,000</strong></td>
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</tbody>
</table>
incurred under Category (1), for payments made for Subprogram A(i)
expenditures prior to this date but on or after July 7, 2008.

(b) under Category (1), unless the Association has confirmed in writing that:
(A) the annual sub-national budget for basic services comprising the
relevant Subprogram A(i) expenditures, satisfactory to the Association,
have been delivered to the Association; (B) the relevant JBAR and JRIS
have concluded successfully, in the opinion of the Association, enabling
a determination of the appropriate percentage of expenditures to be
financed, taking into account the Pooled Funding A Partners’ assessment
of the Recipient’s performance under the Project (the SAFE performance
assessment); and (C) satisfactory interim financial reports, prepared for
two successive quarters in accordance with the provisions of Section
II.B.2(a) of Schedule 2 to this Agreement, relating to the Subprogram
A(i) expenditures for the relevant Project period, have been delivered to
the Association.

(c) under Category (2), unless the Association has confirmed in writing that
a satisfactory interim financial report, prepared in accordance with the
provisions of Section II.B.2(a) of Schedule 2 to this Agreement, for the
LIG component expenditures under Subprogram A(ii), and relating to the
relevant Project period, has been delivered to the Association.

(d) under Categories (3), (4) and (5), unless the Association has confirmed in
writing that: (A) the annual work plans for Subprogram B, Subprogram
C, and Subprogram D, respectively, satisfactory to the Association, have
been delivered to the Association; and (B) satisfactory interim financial
reports, prepared in accordance with the provisions of Section II.B.2(a)
of Schedule 2 to this Agreement, for the expenditures under the relevant
Subprogram, and relating to the relevant Project period, have been
delivered to the Association.

2. The Closing Date is December 31, 2011.

Section V. Other Undertakings

1. The Recipient shall:

(a) by September 30, 2009, recruit, in accordance with the provisions of
Section III of this Schedule 2, agreed additional staff to the PBS
Coordination Unit; EMCP; BoFEDs; the General Directorate for Policy
Planning and Finance, as well as the Program Based Audit Office, both
of the MOH; public procurement agencies at the Federal and Regional levels; and PFSA;

(b) by April 30, 2010, ensure that a social accountability plan for roll-out is endorsed by the PBS Social Accountability Steering Committee, and that the corresponding activities are under way;

(c) by October 31, 2010: (i) carry out a mid-term review of the progress achieved under the Project; (ii) carry out, under terms of reference satisfactory to the Association, by duly qualified specialists acceptable to the Association, retained in accordance with the provisions of Section III of this Schedule 2, and furnish to the Association, a public expenditure and financial accountability assessment of such scope and detail as the Association shall request; (iii) carry out, under terms of reference satisfactory to the Association, by duly qualified auditors acceptable to the Association, retained in accordance with the provisions of Section III of this Schedule 2, an independent procurement audit of procurement activities financed under the Project and furnish to the Association a report thereon of such scope and detail as the Association shall request; and (iv) carry out, under terms of reference satisfactory to the Association, by duly qualified environmental specialists acceptable to the Association, retained in accordance with the provisions of Section III of this Schedule 2, an environmental sustainability study on Local Investment Grant activities financed under Part 1(ii) of the Project, and furnish a report to the Association thereon of such scope and detail as the Association shall request;

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

(e) by October 31, 2011, carry out under terms of reference satisfactory to the Association, by duly qualified auditors acceptable to the Association, 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 Association thereon of such scope and detail as the Association shall request.
## SCHEDULE 3

**Repayment Schedule**

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
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<tbody>
<tr>
<td>On each May 15 and November 15:</td>
<td></td>
</tr>
<tr>
<td>Commencing November 15, 2019, to and including May 15, 2029</td>
<td>1%</td>
</tr>
<tr>
<td>Commencing November 15, 2029, to and including May 15, 2049</td>
<td>2%</td>
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* 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

I. Definitions


2. “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 1(b) of Section I.B of Schedule 2 to this Agreement.

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

4. “Central Joint Steering Committee” or “CJSC” means a committee created at the federal level pursuant to HSDP and which will carry out certain functions under Part 2 of the Project as described in paragraph 1(b) of Section I.C of Schedule 2 to this Agreement.

5. “Central Statistics Agency” or “CSA” means the national agency that is responsible for administering, conducting and supervising most surveys in Ethiopia.


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

8. “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) (Part 1 (i) of the Project) into which the Pooled Funding A Partners’ funds shall be deposited.

9. “Designated Pooled Account B” means the account to be maintained in the National Bank of Ethiopia in Dollars to finance activities relating to
Subprogram B into which the Pooled Funding B Partners’ funds shall be deposited.

10. “Designated Account LIG” means the account to be maintained in the National Bank of Ethiopia in Dollars to finance activities relating to Subprogram A(ii), into which the relevant PBS funds allocated from time to time to Category (2), shall be deposited.

11. “Designated Pooled Account C and D” means the account to be maintained in the National Bank of Ethiopia in Dollars to finance activities relating to Subprograms C and D, into which the Pooled Funding C and D Partners’ funds shall be deposited.


13. “EMCP Coordination Office” means a unit of MOFED which is responsible for coordination of the Expenditure Management and Control Program.

14. “EMCP Steering Committee” means the committee composed of managers of different projects under EMCP and heads of Regional BOFEDs, as assigned from time to time by MOFED.

15. “Environmental and Social Management Framework” or “ESMF” means the Recipient’s framework, prepared in form and substance satisfactory to the Association, dated August 2007, prepared for purposes of providing guidance for activities financed under Local Investment Grants under the pilot LIG component under Part 1(i) of the Project, describing measures for the mitigation of the potential adverse environmental and social impact of such activities, as the same may be updated from time to time with the concurrence of the Association, and to be applied in accordance with the provisions of paragraph 2 of Section I.F of Schedule 2 to this Agreement.

16. “Environmental Management Plan” or “EMP” means an Environmental Management Plan, acceptable to the Association and consistent with the ESMF, adopted for the purposes of an activity financed under a Local Investment Grant under Part 1(i) of the Project, and giving details of the specific actions, measures and policies designed to facilitate the achievement of the objectives of the ESMF under the said activity, along with the procedural and institutional measures needed to implement such actions, measures and policies, as such EMP may be amended from time to time with the prior written agreement of the Association.
17. “Expenditure Management and Control Program” or EMCP” means a program within MOFED which has been established for guiding the Recipient’s public financial management reforms including financial transparency and accountability.

18. “Ethiopian Fiscal Year” or “EFY” means the Fiscal Year of the Recipient which commences on July 8 and ends on July 7.


20. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).

21. “Guidelines for Handling and Disposal of Medical Waste” means the Recipient’s Guidelines describing measures to be taken by health facilities for the prevention of health hazards arising from the improper handling and disposal of medical, pathological, chemical, infectious, biological or pharmaceutical waste, dated September 1997, and referred to in paragraph 1 of Section 1.F of Schedule 2 to this Agreement.

22. “Guidelines for Indoor Residual Insecticide Spraying” means the Recipient’s guidelines describing measures to be taken in storing and handling insecticide use for internal spraying, and related training guidelines for staff involved in IRS, revised in April 2007, as the same may be updated from time to time with the concurrence of the Association.

23. “Guidelines for Malaria Vector Control” means the Recipient’s guidelines describing the strategies, activities, and measures to be taken for vector control, based on entomological surveillance/surveys, published on March 2002, as the same may be updated from time to time with the concurrence of the Association.

24. “Health Millennium Development Goals Performance Facility” or “Health MDG Performance Facility” means the facility referred to in Part 2 of the Project, as described in Schedule 1 to this Agreement.

25. “Health Sector Development Program” or “HSDP” means the Recipient’s Third Health Sector Development Program, dated September 2005, for the period 2005-06 through 2009-10, or any successor thereto for subsequent years during the implementation of the Project.
26. “IBEX” means the Integrated Budget and Expenditures System of MOFED.

27. “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.

28. “JRIS” or “Joint Review and Implementation Supports” means each semi-annual supervision mission jointly carried out by the Recipient and the Contributing Partners.

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


31. “Local Investment Grant” means a multi-sector specific purpose grant made by the Federal Government within the framework of the Program, and having the purpose of increasing the quality and quantity of capital spending by Woreda Governments in the following sectors: health, education, agriculture, natural resources (including water) and rural roads.

32. “LIG Operational Manual” means a manual relating to the pilot LIG component under Part I(ii) of the Project, in form and substance satisfactory to the Association, setting forth details of the procedures, guidelines, timetables and criteria required for the implementation of the pilot LIG component, as such manual may be amended from time to time with the prior agreement of the Association.

33. “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.

34. “MCB” means the Recipient’s Federal Ministry of Capacity Building which has responsibilities under the Project as described in paragraph 2 of Section I.B of Schedule 2 to this Agreement.
35. “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.

36. “MOH” means the Recipient’s Federal Ministry of Health which has responsibilities under the Project as described in paragraph 1(a) of Section I.C of Schedule 2 to this Agreement.

37. “OFAG” means the Office of the Federal Auditor General, the constitutionally mandated financial auditor of the Recipient.

38. “Operational Manual” means the manual referred to in Section 5.01 (a) of this Agreement, in form and substance satisfactory to the Association 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 Association, and such term includes all schedules and annexes to such manual.

39. “ORAG” means a Regional office of auditor general.

40. “Pharmaceutical Fund and Supply Agency” or “PFSA” means the pharmaceutical fund and supply agency established under MOH, which has responsibilities under the Project as described in paragraph 2 of Section I.C of Schedule 2 to this Agreement, or any successor thereto which is concerned with procurement and distribution of pharmaceutical supplies on behalf of the MOH.

41. “Pooled Funding A Partners” means collectively, the Association and any other international development agencies or governments that are pooling at least a part of their funds for Subprogram A(i) (Part 1(i) of the Project) into Designated Pooled Account A.

42. “Pooled Funding B Partners” means collectively, the Association and any other international development agencies or governments that are pooling at least a part of their funds for Subprogram B (Part 2 of the Project) into Designated Pooled Account B.

43. “Pooled Funding C and D Partners” means collectively, the Association and any other international development agencies or governments that are pooling at least a part of their funds for Subprograms C and D of the Project into Designated Pooled Account C and D.
44. “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised October 2006.

45. “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.

46. “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.

47. “Project Affected Person” means any person who, on account of the execution of the Project, has experienced or would experience direct economic and social impacts caused by: (a) the involuntary taking of land, resulting in (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) have or would have their right, title, or interest in any house, land (including premises, agricultural and grazing land) or any other fixed or movable asset acquired or possessed, or otherwise adversely affected temporarily or permanently.

48. “PSCAP” means the Public Sector Capacity Building Program of the Recipient.

49. “Public Expenditure and Financial Accountability Assessment” or “PEFA Assessment” means an assessment of the public expenditure and financial accountability systems of the Recipient, including key recommendations and an action plan, and used to identify strengths and weaknesses in planning, budgeting and financial management systems, to be carried out by the Recipient in accordance with the provisions of paragraph 1(c)(ii) of Section V of Schedule 2 to this Agreement.

50. “Public Procurement Agency” means the procurement regulatory body of the Recipient established and operating pursuant to Proclamation 430/2005.
51. “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.


53. “Regional Joint Steering Committee” or “RJSC” means each committee created at the regional level pursuant to HSDP and which will carry out certain functions under Part 2 of the Project as described in paragraph 1(c) of Section I.C of Schedule 2 to this Agreement.

54. “Reform Support Unit” or “RSU” means the Unit in MOFED which will oversee the implementation of activities to support the strengthening of Woreda public financial management systems.

55. “Resettlement Action Plan” or “RAP” means a Resettlement Action Plan acceptable to the Association and consistent with the RPF, adopted for the purposes of an activity financed under a Local Investment Grant under Part 1(i) of the Project, and giving details of the specific actions, measures and policies designed to facilitate the achievement of the objectives of the RPF under the said activity, along with the procedural and institutional measures needed to implement such actions, measures and policies, as such RAP may be amended from time to time with the prior written agreement of the Association. “Resettlement Policy Framework” or “RPF” means the instrument prepared by the Recipient, dated August 2007, in form and substance satisfactory to the Association, for use throughout the implementation of the pilot LIG component of the Project, and publicly disclosed in impacted areas, and setting out the resettlement and compensation policy, organizational arrangements and design criteria to be applied to meet the needs of the people who may be affected by activities under Local Investment Grants.

56. “Resettlement Activity” means: (a) the involuntary taking of land, resulting in (i) relocation or loss of shelter; (ii) loss of assets or access to assets; or (iii) loss of income sources or means of livelihood, whether or not such person must move to another location; or (b) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person.
57. “SAFE” means a set of agreed principles, acceptable to the Association underpinning the performance assessment framework for the Program, which includes sustainability in additionality, accountability including fairness, fiduciary standards, and effectiveness.

58. “Sub-national Governments” means the Recipient’s Regional Governments and Local Authorities.

59. “Subprogram A(i)” means an annual program of activities and associated budget for Part 1 (i) of the Project.

60. “Subprogram A(ii)” means an annual program of activities and associated budget for Part 1 (ii) of the Project relating to the implementation of the LIG scheme.

61. “Subprogram B” means an annual program of activities and associated budget for Part 2 of the Project.

62. “Subprogram C” means an annual program of activities and associated budget for Part 3 of the Project.

63. “Subprogram D” means an annual program of activities and associated budget for Part 4 of the Project.

64. “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.

65. “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 paragraph 1(c) of Section I.B of Schedule 2 to this Agreement.

66. “Vector Management Plan” means a plan describing the chemical, biological and environmental methods for the control of disease-carrying insects referred to in paragraph 1 of Section I.F of Schedule 2 to this Agreement.

67. “WaSH” means the National Water, Sanitation and Hygiene program support by several donors and implemented at different levels of government, at the Federal level mainly by a coordination office located in the Ministry of Water Resources and constituting representatives from MOH and Ministry of Education.
“Woreda” means the third tier of government in the Recipient’s administrative system as established under the relevant Regional legislation.

“Woreda Joint Steering Committee” or “WJSC” means each committee created at the local level pursuant to HSDP and which will carry out certain functions under Part 2 of the Project as described in paragraph 1(d) of Section I.C of Schedule 2 to this Agreement.

“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 paragraph 1(c) of Section I.B of Schedule 2 to this Agreement.

II. Modification to the General Conditions

The modification to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) is in respect of paragraph (a) of Section 2.05 (Eligible Expenditures), which shall hereby be modified as follows:

“(a) the payment is for the reasonable cost of: (i) with respect to Subprogram A(i), operating costs (including salaries of the officials of the Recipient’s civil service, equipment operation and maintenance costs, communication charges, transportation costs, field supervision travel allowances, office supplies, and fuel); (ii) with respect to Subprogram B, goods, consultant services, training, workshop, operating costs (including equipment operation and maintenance costs, communication charges, transportation costs, field supervision travel allowances, office supplies, and fuel), studies, assessments, field supervision travel allowances; (iii) with respect to Subprograms C and D, goods, training and workshops, consultants' services including audits, and operating costs (including equipment operation and maintenance costs, communication charges, transportation costs, field supervision travel allowances, office supplies, and fuel); and (iv) with respect to Subprogram A(ii), goods, works, or services, required for the Project, to be financed out of the proceeds of the Financing and procured, all in accordance with the provisions of the Legal Agreements;”