

CONFORMED COPY

GRANT NUMBER H224 - ET

Financing Agreement

(Protection of Basic Services Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 29, 2006

FINANCING AGREEMENT

AGREEMENT dated May 29, 2006, between the FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (“the Recipient”) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (“the 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 grant in an amount equivalent to one hundred forty-nine million six hundred thousand Special Drawing Rights (SDR 149,600,000) (“Grant”) to assist in financing the project described in Schedule 1 to this Agreement (“Project”);
- 2.02. The Recipient may withdraw the proceeds of the Grant 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 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 Part 1 of the Project through MOFED, Part 2 of the Project through MOH, and Part 3 of the Project through MOFED and MCB 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 Conditions of Effectiveness consist of the following:
 - (a) The Recipient has provided to the Association and Pooled Funding A Partners monthly data on Block Grant transfers from the Federal Government to all Regions up to and including February 2006, and from the Regions of Amhara, Oromia, Southern Nations Nationalities and Peoples, and Tigray to their respective Local Authorities on a local government-by-local government basis, up to and including January 2006;
 - (b) The Recipient has provided to the Association and Pooled Funding A Partners the Food Security Program's annual physical and financial report for EFY97 and quarterly transfer data for the first three quarters of EFY98;
 - (c) The Recipient has prepared terms of reference satisfactory to the Association for the Public Expenditure and Financial Accountability (PEFA) Assessment;

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) or	202-477-6391
Washington, D.C.	64145 (MCI)	

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

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By: /s/ Sufian Ahmed

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Ishac Diwan

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to protect the delivery of basic services by Sub-national Governments while promoting and deepening transparency and accountability in service delivery.

The Project consists of the following parts:

Part 1: **Promoting the Delivery of Basic Services by Sub-national Governments**

Promoting 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 natural resources.

Part 2: **Promoting the Health Millennium Development Goals**

Carrying out of Subprogram B by contributing funds to a Health Millennium Development Goals Performance Facility to finance:

- (i) critical inputs for primary health service delivery such as vaccines, contraceptives, long-lasting insecticide-treated mosquito nets, malaria drugs, insecticides, spray pumps and equipment;
- (ii) capacity building activities, including investment in human resources, monitoring and evaluation, as well as operational research and other activities at the MOH level; and
- (iii) strengthening of procurement and logistics, including provision of training and technical assistance to selected staff in MOH on international procurement, establishment of a Central Medical Store, and strengthening of the national distribution system.

Part 3: Strengthening Government Systems on Financial Transparency and Accountability

Carrying out of Subprogram C including:

- (i) enhancing transparency around public budget procedures (preparation, expenditure and audits) and improving public disclosure of budget information at the Regional and Local Authorities levels;
- (ii) fostering citizens' understanding of, and engagement with, public budget processes;
- (iii) improving public disclosure by service facilities such as schools and health clinics of their annual budgets, resource levels (e.g. staffing allocations), agreed performance standards and indicators established at the Woreda and/or Regional level;
- (iv) monitoring and evaluation activities to assess progress made against the core objectives, such as carrying out financial transparency and accountability perception surveys, reviews and assessments; and
- (v) financing the services of accountants and IT personnel to be hired by MOFED to enhance its capacity, provision of technical assistance to the Regions and Local Authorities, building capacity in OFAG, and provision of goods for both MOFED and OFAG.

SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. General

1. The Recipient shall carry out the Project in accordance with the Operational Manual throughout the period of implementation.
2. The Recipient shall sign MOU A and MOU B with the Association and, respectively, Pooled Funding A Partners and Pooled Funding B Partners by October 31, 2006.

B. Subprograms A and C

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 and 3 of the Project in accordance with the Operational Manual. For this purpose, MOFED shall liaise with Pooled Funding A Partners as required. MOFED's primary responsibilities shall include:
 - (i) making timely transfers of Subprogram A and C resources to Regions and Local Authorities as per agreed fiscal transfer formulae, ensuring effective financial management and compliance with fiduciary requirements;
 - (ii) 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;
 - (iii) improving financial transparency and social accountability for public expenditures and basic services delivery at regional, local and service facility levels;

- (iv) coordinating with the Key Line Ministries, their counterpart Regional sector bureaus and Woreda sector offices, as necessary, for the implementation of Parts 1 and 3 of the Project;
 - (v) ensuring that Regional sector bureaus and Woreda sector offices disseminate service facility related information;
 - (vi) ensuring that councils at Regional and Local Authority levels review and approve work plans and budgets in a timely manner; and
 - (vii) hiring, no later than October 31, 2006, at least fifty additional accountants, with terms of reference acceptable to the Association, to enhance its financial management capacity and provide technical assistance to Regional Governments and Local Authorities.
- (b) At the regional level, the Recipient shall cause *Bureau of Finance and Economic Development* to:
- (i) transfer Subprogram A and C resources to Local Authorities based on agreed plans for delivery of basic services;
 - (ii) coordinate Project implementation and launch start-up activities;
 - (iii) mobilize technical assistance from other line agencies as may be required;
 - (iv) review and consolidate progress reports from Local Authorities, and provide feedback, as necessary; and
 - (v) monitor and evaluate overall performance and resource use.
- (c) 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.

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 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 Operational Manual. The *Central Joint Steering Committee, Regional Joint Steering Committees* and *Woreda Joint Steering Committees* respectively, federal, regional and local levels, shall assist MOH in the implementation of Subprogram B in accordance with the Operational Manual and as set forth below.
- (b) Without limitation to the generality of paragraph (a) above, the Recipient shall cause CJSC to ensure that:
 - (i) procurement and logistics plans are appropriately drawn up and implemented;
 - (ii) procurement 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.

- (c) Without limitation to the generality of paragraph (a) 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) holding of quarterly meetings with WJSCs to assess the status of implementation and agree on next steps; and
 - (iii) 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.

- (d) Without limitation to the generality of paragraph (a) 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. The Recipient shall appoint a Procurement Agent for purposes of Part 2 of the Project by December 31, 2006.

D. Environmental Safeguards

1. The Recipient shall carry out the Project in accordance with the Guidelines for Handling and Disposal of Medical Waste.
2. The Recipient shall prepare, as necessary, a Vector Management Plan in form and substance satisfactory to the Association and implement the Project in accordance with such Plan.

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) The aggregate level of Block Grant transfers including Subprogram A resources (Federal Government to Regions and Regions to Local Authorities) is maintained at approved budgeted levels for EFY98 and increased in EFY99.
 - (ii) Block Grant transfers to Local Authorities including Subprogram A resources are in accordance with intergovernmental fiscal rules.
 - (iii) The utilization of insecticide-treated malaria bed-nets among children under five years of age in malaria-affected areas increases to 60% in EFY99 relative to 4% in EFY97.
 - (iv) DPT3 vaccination coverage increases to 60% in EFY99 relative to 32% in EFY97.

- (v) The contraceptive prevalence rate increases to 20% in EFY99 from 14% in EFY97.
 - (vi) There is a 5% increase in citizens' understanding of public budget processes in EFY99 relative to EFY98 as assessed by a quantitative survey.
2. During Project implementation, the Recipient shall ensure that at least five Joint Budget and Aid Reviews (JBARs) are carried out, pursuant to the provisions of the Operational Manual, and according to the schedule as follows:
- (a) First JBAR in October 2006;
 - (b) Second JBAR in January 2007;
 - (c) Third JBAR in April 2007 coinciding with the Project's mid-term review;
 - (d) Fourth JBAR in June 2007; and
 - (e) Fifth JBAR in October 2008.
3. The Recipient shall also undertake to complete:
- (a) by December 31, 2006: field work for a baseline financial transparency and accountability perception survey; and
 - (b) by September 30, 2007: (a) a draft report on the results of a quantitative health service delivery survey; and (b) field work for a follow-up of the financial transparency and accountability perception survey.

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 not later than three (3) months after the end of each Ethiopian fiscal quarter, interim unaudited Financial Monitoring

Reports for the Project covering such quarter, in form and substance satisfactory to the Association.

3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than nine (9) 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 Subprogram A. The Recipient shall cause OFAG to provide the Association with quarterly summaries of these audit findings within three (3) months of the end of each Ethiopian fiscal quarter.

Section III. Procurement

A. General

1. **Goods.** All goods 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

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding. Domestic preference will apply when included in bidding documents.

2. **Other Methods of Procurement of Goods.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

<u>Procurement Methods</u>
<i>(a) Limited International Bidding</i>
<i>(b) National Competitive Bidding</i>
<i>(c) Shopping</i>
<i>(d) Direct Contracting</i>
<i>(e) Procurement from United Nations Children's Fund (UNICEF) and United Nations Population Fund (UNFPA)</i>

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.

<u>Procurement Methods</u>
<i>(a) Least Cost Selection</i>
<i>(b) Selection Based on the Consultants' Qualifications</i>
<i>(c) Single Source Selection</i>
<i>(d) Selection of Individual Consultants</i>
<i>(e) Community Participation</i>

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

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association:

- (a) each contract for goods estimated to cost the equivalent of \$150,000 or more;
- (b) the first two contracts procured on the basis of National Competitive Bidding;

(c) all contracts procured on the basis of Direct Contracting; (d) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (e) each contract for consultants' services provided by an individual consultant estimated to cost the equivalent of \$50,000 or more; and (f) all contracts selected on Single Source basis. 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 this Section and such additional instructions as the Association shall specify by notice to the Recipient, 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 Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

	Categories	Amount of the Grant Allocated (expressed in SDR)	% of expenditures to be financed
1.	Subprogram A	132,150,000	Such percentage of Eligible Expenditures as the Association may determine for each EFY
2.	Subprogram B	13,920,000	Such percentage of Eligible Expenditures as the Association may determine for each EFY
3.	Subprogram C	1,400,000	Such percentage of Eligible Expenditures as the Association may determine for each EFY
4.	Unallocated	2,130,000	
	TOTAL	149,600,000	

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 forty-three million Dollars (\$43,000,000) equivalent may be in respect of Eligible Expenditures incurred under Category 1 for payments made prior to this date but on or after July 8, 2005; or
- (b) under Category 1, unless it is confirmed that:
 - (i) in October 2006: (A) Subprogram A satisfactory to the Association relating to the relevant Project quarter has been submitted for the EFY of Project implementation; and (B) the second JBAR has been successfully completed, and an FMR relating to the relevant Project quarter has been submitted to the Association;
 - (ii) in January 2007: (A) Subprogram A satisfactory to the Association relating to the relevant Project quarter has been submitted for the EFY of Project implementation; (B) the third JBAR has been successfully completed, and an FMR relating to the relevant Project quarter has been submitted to the Association;
 - (iii) in April 2007: (A) Subprogram A satisfactory to the Association relating to the relevant Project quarter has been submitted for the EFY of Project implementation; (B) the fourth JBAR has been successfully completed, and an FMR relating to the relevant Project quarter has been submitted to the Association;
 - (iv) in June 2007: (A) Subprogram A satisfactory to the Association relating to the relevant Project quarter has been submitted for the EFY of Project implementation; and (B) the fifth JBAR has been successfully completed, and an FMR relating to the relevant Project quarter has been submitted to the Association; and
 - (v) for all subsequent quarters: (A) Subprogram A satisfactory to the Association relating to the relevant Project quarter has been submitted for the EFY of Project implementation; and (B) an FMR relating to the relevant Project quarter has been submitted to the Association.
- (c) under Category 2, for the second and subsequent withdrawals, unless it is confirmed that: (A) Subprogram B satisfactory to the Association

relating to the relevant EFY of Project implementation; and (B) an FMR relating to the relevant Project quarter has been submitted to the Association; or

- (d) under Category 3, unless it is confirmed that: (A) Subprogram C satisfactory to the Association relating to the relevant EFY of Project implementation; and (B) an FMR relating to the relevant Project quarter has been submitted to the Association.

2. The Closing Date is June 30, 2008.

APPENDIX

I. Definitions

- (1) “Block Grant” means the monthly transfer of treasury resources from the Federal Government to Regional Governments and from Regions to Local Authorities as per agreed constitutional and intergovernmental fiscal rules of the Recipient;
- (2) “Bureau of Finance and Economic Development” or “BOFED” means the agency established at regional level within the administration of the Regional Government with responsibilities under the Project as described in Section I (B) (1) (b) of Schedule 2 to this Agreement;
- (3) “Category” means a category set forth in the table in Section IV (A) (2) of Schedule 2 to this Agreement;
- (4) “Central Joint Steering Committee” or “CJSC” means a committee created at the federal level pursuant to HSDP 3 and which will carry out certain functions under Part 2 of the Project as described in Section I (C) (1) (b) of Schedule 2 to this Agreement;
- (5) “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the World Bank in May 2004;
- (6) “Designated Pooled Account A” means the account to be maintained in the National Bank of Ethiopia in Dollars to finance activities relating to Subprograms A and C, into which the Pooled Funding A Partners funds shall be deposited;
- (7) “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;
- (8) “DPT3 vaccination” means a series of immunizations to prevent diphtheria, pertussis (whooping cough) and tetanus in children, to be administered in three doses, at the ages of one month, one month-and-a-half and three months;
- (9) “Ethiopian Fiscal Year” or “EFY” means the Fiscal Year of the Recipient which commences on July 8 and ends on July 7;

- (10) “Federal Government” means the first tier of government in the administrative system of Recipient established under the Recipient’s Federal Constitution of 1995;
- (11) “Financial Monitoring Report” or “FMR” means the report on the basis of which disbursements shall take place, referred to in Section II (B) (2) of Schedule 2 to this Agreement, which sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing funds provided under Designated Pooled Accounts A and B, and explains variances between the actual and planned uses of such funds; describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and sets forth the status of procurement under the Project, as at the end of the period covered by said report;
- (12) “Food Security Program” means the program financed by the Recipient to address the needs of chronically food insecure households through the provision of agricultural and microfinance services;
- (13) “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005;
- (14) “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 Section I (D) (1) of Schedule 2 to this Agreement;
- (15) “Health Millennium Development Goals Performance Facility” or “Facility” means the facility referred to in Part 2 of the Project as described in Schedule 1 to this Agreement;
- (16) “HSDP 3” means the Recipient’s Third Health Sector Development Program for the period 2005-06 through 2010-11;
- (17) “JBAR” or Joint Budget and Aid Review means each periodic review jointly carried out by the Recipient and Pooled Funding A and B Partners as described in Section II (A) (2) of Schedule 2 to this Agreement;

- (18) “Key Line Ministries” means the Recipient’s Ministries including Education, Agriculture and Rural Development, Federal Affairs, and Water Resources;
- (19) “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;
- (20) “MCB” means the Recipient’s Federal Ministry of Capacity Building which has responsibilities under the Project as described in Section I (B) (2) of Schedule 2 to this Agreement;
- (21) “MOFED” means the Recipient’s Federal Ministry of Finance and Economic Development which is responsible for certain functions under the Project as described in Section I (B) (1) (a) of Schedule 2 to this Agreement;
- (22) “MOH” means the Recipient’s Federal Ministry of Health which has responsibilities under the Project as described in Section I (C) (1) (a) of Schedule 2 to this Agreement;
- (23) “MOU A” means the Memorandum of Understanding referred to in Section I (A) (2) of Schedule 2 to this Agreement, to be entered into between the Recipient, the Association and all the Pooled Funding A Partners providing for common arrangements and procedures on procurement, disbursement, accounting, monitoring, reporting, auditing, coordination and exchange of information required for the implementation of Subprograms A and C;
- (24) “MOU B” means the Memorandum of Understanding referred to in Section I (A) (2) of Schedule 2 to this Agreement, to be entered into between the Recipient, the Association and all the Pooled Funding B Partners providing for common arrangements and procedures on procurement, disbursement, accounting, monitoring, reporting, auditing, coordination and exchange of information required for the implementation of Subprogram B;
- (25) “Office of the Federal Auditor General” or “OFAG” means the office of the constitutionally mandated financial auditor of the Recipient;
- (26) “Operational Manual” means a manual 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 agreement of the Association;

- (27) “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 Parts 1 and 3 of the Project into Designated Pooled Account A, and who will be a party to MOU A;
- (28) “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 the Part 2 of the Project into Designated Pooled Account B, and who will be a party to MOU B;
- (29) “Procurement Guidelines” means the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004;
- (30) “Procurement Plan” means the Recipient’s procurement plan for the Project, dated February 25, 2006 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;
- (31) “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;
- (32) “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;
- (33) “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;
- (34) “Regional Government” means the second tier of government in the administrative system of Recipient established under the Recipient’s Federal Constitution of 1995;

- (35) “Regional Joint Steering Committee” or “RJSC” means each committee created at the regional level pursuant to HSDP 3 and which will carry out certain functions under Part 2 of the Project as described in Section I (C) (1) (c) of Schedule 2 to this Agreement;
- (36) “Sub-national Governments” means the Recipient’s Regional Governments and Local Authorities;
- (37) “Subprogram A” means an annual program of activities and associated budget for Part 1 of the Project to be financed from Designated Pooled Account A;
- (38) “Subprogram B” means an annual program of activities and associated budget for Part 2 of the Project to be financed from Designated Pooled Account B;
- (39) “Subprogram C” means an annual program of activities and associated budget for Part 3 of the Project to be financed from Designated Pooled Account A;
- (40) “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;
- (41) “Urban Administration Office of Finance” or “UAOF” means the governmental agency established at local level in an Urban Administration with responsibilities under the Project as described in Section I (B) (1) (c) of Schedule 2 to this Agreement;
- (42) “Vector Management Plan” means a plan describing the chemical, biological and environmental methods for the control of disease-carrying insects referred to in Section I (D) (2) of Schedule 2 to this Agreement;
- (43) “Woreda” means the third tier of government in the Recipient’s administrative system as established under the relevant regional legislation;
- (44) “Woreda Joint Steering Committee” or “WJSC” means each committee created at the local level pursuant to HSDP 3 and which will carry out certain functions under Part 2 of the Project as described in Section I (C) (1) (d) of Schedule 2 to this Agreement; and
- (45) “Woreda Office of Finance and Economic Development” or “WOFED” means the governmental agency established at local level in a Woreda with

responsibilities under the Project as described in Section I (B) (1) (c) 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 is as follows:

Section 2.05 Eligible Expenditures

“(a) (i) with respect to Subprogram A, 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, 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 (iii) with respect to Subprogram C, 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);”