H.E. Ato Sufian Ahmed
Minister
Ministry of Finance and Economic Development
P.O. Box 1905
Addis Ababa, Ethiopia

Excellency

Re: IDA Financing 5435-ET (Second Urban Local Government Development Program)
Additional Instructions: Disbursement

I refer to the Financing Agreement between the International Development Association (the "Association") and the Federal Democratic Republic of Ethiopia (the "Recipient") providing the above-referenced financing (the "Financing"), dated May 6, 2014 (the "Financing Agreement"). The Financing Agreement provides that the Association may issue additional instructions regarding the withdrawal of the proceeds of the Financing. This letter ("Disbursement Letter"), as revised from time to time, constitutes the additional instructions.

The capitalized terms used in this Disbursement Letter have the meanings ascribed to them in this Disbursement Letter or in the Financing Agreement (as the case may be).

I. Disbursement Arrangements

(i) Withdrawal Applications. Applications for withdrawal from the Financing Account ("Withdrawal Applications") of amounts of the Financing allocated to individual Disbursement Linked Results ("DLR") may, pursuant to the provisions of Section I. C. 2, and Section IV.A of Schedule 2 of the Financing Agreement, Disbursement Linked Indicators Matrix (Attachment 3) and Disbursement Table (Attachment 4), be sent to the Association at any time after the Association has notified the Recipient in writing that it has accepted evidence of achievement of the specific DLR.

(ii) Withdrawal Amount. The Withdrawal Application may be for an amount not to exceed the amount of the Financing confirmed by the Association for the specific DLR in respect of which the withdrawal is requested, as specified in the Association’s notice to the Recipient.

(iii) Disbursement Deadline Date. The period of disbursement of the Financing ends six months after the Closing Date ("Disbursement Deadline Date"). This is the final date established by the Association for receipt by the Association of Withdrawal Applications. Normally, to support orderly closure of the Financing Account, the Association does not accept Withdrawal Applications received after the Disbursement Deadline Date. The Recipient should promptly inform the Association of any expected implementation delays or exceptional administrative issues before these dates. The Association will notify the Recipient of any exception that the Association may make to the Disbursement Deadline Date.

(iv) Deposits of Financing Amounts. All withdrawals from the Financing Account shall be deposited by the Association into an account specified by the Recipient and acceptable to the Association.
(v) **Withdrawal Conditions.** Please refer to the Withdrawal Condition(s) in the Financing Agreement.

II. **Withdrawal Applications**

(i) **Authorized Signatories for Withdrawal Applications.** An authorized signatory letter in the Form attached (Attachment 1) should be furnished to the Association at the address indicated below providing the name(s) and specimen signature(s) of the official(s) authorized to sign Withdrawal Applications:

The World Bank  
1818 H Street, NW  
Washington, DC 20433  
Attention: Guang Z. Chen, Country Director, Ethiopia

(ii) **Applications (subsections 3.2 - 3.3).** Please provide completed and signed (a) applications for withdrawal, together with supporting documents, and (b) applications for special commitments, together with a copy of the commercial bank letter of credit, to the address indicated below:

The World Bank,  
Loan Department,  
Kenya Re Towers, 10th Floor,  
Upper Hill, off Ragati Road,  
Nairobi,  
Kenya.

(iii) **Electronic Delivery.** The Association may permit the Recipient to electronically deliver to the Association Withdrawal Applications through the Association’s Client Connection, web-based portal. The option to deliver Withdrawal Applications to the Association by electronic means may be effected if: (a) the Recipient has designated in writing, pursuant to the terms of subparagraph (i) of this Section, its officials who are authorized to sign and deliver Withdrawal Applications and to receive secure identification credentials (“SIDC”) from the Association for the purpose of delivering such Withdrawal Applications by electronic means; and (b) all such officials designated by the Recipient have registered as users of Client Connection. If the Association agrees, the Association will provide the Recipient with SIDC for the designated officials. Following which, the designated officials may deliver Withdrawal Applications electronically by completing Form 2380, which is accessible through Client Connection (https://clientconnection.worldbank.org). The Recipient may continue to exercise the option of preparing and delivering Withdrawal Applications in paper form. The Association reserves the right and may, in its sole discretion, temporarily or permanently disallow the electronic delivery of Withdrawal Applications by the Recipient.

(iv) **Terms and Conditions of Use of SIDC to Process Withdrawal Applications.** By designating officials to use SIDC and by choosing to deliver the Withdrawal Applications electronically, the Recipient confirms through the authorized signatory letter its agreement to: (a) abide by the Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation (“Terms and Conditions of Use of Secure Identification Credentials”) provided in Attachment [2]; and (b) to abide by those terms and conditions.
III. Other Important Information

For additional information on disbursement arrangements and electronic delivery of Withdrawal Applications, please visit our secure website “Client Connection” at https://clientconnection.worldbank.org.

If you have not already done so, the Association recommends that you register as a user of the Client Connection website (https://clientconnection.worldbank.org). From this website you will be able to prepare and deliver Withdrawal Applications, monitor the near real-time status of the Financing, and retrieve related policy, financial, and other information. All Recipient officials authorized to sign and deliver Withdrawal Applications by electronic means are required to register with Client Connection before electronic delivery can be effected. For more information about the website and registration arrangements, please contact the Association by email at <clientconnection@worldbank.org>.

If you have any queries in relation to the above, please contact Jose Janeiro, Senior Finance Officer at jjaneiro@worldbank.org or a member of the Loan Department team responsible for the Ethiopia portfolio using the above reference.

Yours sincerely,

Guang Z. Chen
Country Director for Ethiopia
Africa Region

Attachments

1. Form for Authorized Signatures
3. Disbursement Linked Indicators Matrix
4. Disbursement Table
Form of Authorized Signatory Letter

[Letterhead]

Ministry of Finance

[Street address]

[DATE]
The World Bank
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Attention: [Country Director]

Re: IDA Financing 5435-ET Second Urban Local Government Development Program

I refer to the Financing Agreement between the International Development Association (the "Association") and [name of Recipient] (the "Recipient"), dated ______, providing the above Financing. For the purposes of Section 2.03 of the General Conditions as defined in the Agreement, any one of the persons whose authenticated specimen signatures appear below is authorized on behalf of the Recipient to sign applications for withdrawal under this Financing.

For the purpose of delivering Applications to the Association, [each] of the persons whose authenticated specimen signatures appears below is authorized on behalf of the Recipient, acting [individually] [jointly], to deliver Applications, and evidence in support thereof on the terms and conditions specified by the Association.

5 This confirms that the Recipient is authorizing such persons to accept Secure Identification Credentials (SIDC) and to deliver the Applications and supporting documents to the Association by electronic means. In full recognition that the Association shall rely upon such representations and warranties, including without limitation, the representations and warranties contained in the Terms and Conditions of Use of Secure Identification Credentials in connection with Use of Electronic Means to Process Applications and Supporting Documentation

1 Instruction to the Borrower: Stipulate if more than one person needs to sign Applications, and how many or which positions, and if any thresholds apply. Please delete this footnote in final letter that is sent to the Bank.

2 Instruction to the Borrower: Stipulate if more than one person needs to jointly sign Applications, if so, please indicate the actual number. Please delete this footnote in final letter that is sent to the Bank.

3 Instruction to the Borrower: Use this bracket if any one of the authorized persons may sign; if this is not applicable, please delete. Please delete this footnote in final letter that is sent to the Bank.

4 Instruction to the Borrower: Use this bracket only if several individuals must jointly sign each Application; if this is not applicable, please delete. Please delete this footnote in final letter that is sent to the Bank.

5 Instruction to the Borrower: Add this paragraph if the Borrower wishes to authorize the listed persons to accept Secure Identification Credentials and to deliver Applications by electronic means; if this is not applicable, please delete the paragraph. Please delete this footnote in final letter that is sent to the Bank.
("Terms and Conditions of Use of SIDC"), the Recipient represents and warrants to the Association that it will cause such persons to abide by those terms and conditions.

This Authorization replaces and supersedes any Authorization currently in the Association records with respect to this Agreement.

[Name], [position] Specimen Signature: __________________

[Name], [position] Specimen Signature: __________________

[Name], [position] Specimen Signature: __________________

Yours truly,

/ signed /

[Position]
Terms and Conditions of Use of Secure Identification Credentials
in connection with Use of Electronic Means
to Process Applications
and Supporting Documentation

March 1, 2013

The World Bank (Bank)\textsuperscript{1} will provide secure identification credentials (SIDC) to permit the Borrower\textsuperscript{2} to deliver applications for withdrawal and applications for special commitments under the Agreement(s) and supporting documentation (such applications and supporting documentation together referred to in these Terms and Conditions of Use as Applications) to the Bank electronically, on the terms and conditions of use specified herein.

SIDC can be either: (a) hardware-based (Physical Token), or (b) software-based (Soft Token). The Bank reserves the right to determine which type of SIDC is most appropriate.

A. Identification of Users

1. The Borrower will be required to identify in a completed Authorized Signatory Letter (ASL) duly delivered to and received by the Bank each person who will be authorized to deliver Applications. The Bank will provide SIDC to each person identified in the ASL (Signatory), as provided below. The Borrower shall also immediately notify the Bank if a Signatory is no longer authorized by the Borrower to act as a Signatory.

2. Each Signatory must register as a user on the Bank’s Client Connection (CC) website (https://clientconnection.worldbank.org) prior to receipt of his/her SIDC. Registration on CC will require that the Signatory establish a CC password (CC Password). The Signatory shall not reveal his/her CC Password to anyone or store or record the CC Password in written or other form. Upon registration as a CC user, the Signatory will be assigned a unique identifying account name.

B. Initialization of SIDC

1. Prior to initialization of SIDC by a Signatory, the Signatory will acknowledge having read, understood and agreed to be bound by these Terms and Conditions of Use.

2. Where a Physical Token is to be used, promptly upon receipt of the Physical Token, the Signatory will access CC using his/her account name and CC Password and register his/her Physical Token and set a personal identification number (PIN) to be used in connection with the use of his/her Physical Token, after which the Physical Token will be initialized for use by the Signatory exclusively for purposes of delivering Applications. Where a Soft Token is to be used, the Signatory will access CC using his/her account name and CC Password and set a personal

\textsuperscript{1}“Bank” includes IBRD and IDA.
\textsuperscript{2}“Borrower” includes the borrower of an IBRD loan, IDA credit, or Project Preparation Facility advance and the recipient of a grant.
identification number (PIN) to be used in connection with the use of his/her Soft Token, after which the Soft Token will be initialized for use by the Signatory exclusively for purposes of delivering Applications. Upon initialization of the SIDC, the Signatory will be a “SIDC User”. The Bank will maintain in its database a user account (Account) for each SIDC User for purposes of managing the SIDC of the SIDC User. Neither the Borrower nor the SIDC User will have any access to the Account.

3. Prior to first use of the SIDC by the SIDC User, the Borrower shall ensure that the SIDC User has received training materials provided by the Bank in use of the SIDC.

C. Use of SIDC

1. Use of the SIDC is strictly limited to use in the delivery of Applications by the SIDC User in the manner prescribed by the Bank in the Agreement(s) and these Terms and Conditions. Any other use of the SIDC is prohibited.

2. The Bank assumes no responsibility or liability whatsoever for any misuse of the SIDC by the SIDC User, other representatives of the Borrower, or third parties.

3. The Borrower undertakes to ensure, and represents and warrants to the Bank (such representation and warranty being expressly relied upon by the Bank in granting SIDC) that each SIDC User understands and will abide by, these Terms and Conditions of Use, including without limitation the following:

4. Security

4.1. The SIDC User shall not reveal his/her PIN to anyone or store or record the PIN in written or other form.

4.2. The SIDC User shall not allow anyone else to utilize his/her SIDC to deliver an Application to the Bank.

4.3. The SIDC User shall always logout from CC when not using the system. Failure to logout properly can create a route into the system that is unprotected.

4.4. If the SIDC User believes a third party has learned his/her PIN or has lost his/her Physical Token he/she shall immediately notify clientconnection@worldbank.org.

4.5. The Borrower shall immediately notify the Bank at clientconnection@worldbank.org of any lost, stolen or compromised SIDC, and take other reasonable steps to ensure such SIDC are disabled immediately.

5. Reservation of Right to Disable SIDC

5.1. The Borrower shall reserve the right to revoke the authorization of a SIDC User to use a SIDC for any reason.

5.2. The Bank reserves the right, in its sole discretion, to temporarily or permanently disable a SIDC, de-activate a SIDC User's Account or both.
6. **Care of Physical Tokens**

6.1. Physical Tokens will remain the property of the Bank.

6.2. The Bank will physically deliver a Physical Token to each Signatory designated to receive one in a manner to be determined by and satisfactory to the Bank.

6.3. Physical Tokens contain delicate and sophisticated instrumentation and therefore should be handled with due care, and should not be immersed in liquids, exposed to extreme temperatures, crushed or bent. Also, Physical Tokens should be kept more than five (5) cm from devices that generate electromagnetic radiation (EMR), such as mobile phones, phone-enabled PDAs, smart phones and other similar devices. Physical Tokens should be carried and stored separate from any EMR device. At close range (less than 5 cm), these devices can output high levels of EMR that can interfere with the proper operation of electronic equipment, including the Physical Token.

6.4. Without derogating from these Terms and Conditions of Use, other technical instructions on the proper use and care of Physical Tokens are available at http://www.rsa.com.

7. **Replacement**

7.1. Lost, damaged, compromised (in terms of 4.5, above) or destroyed Physical Tokens will be replaced at the expense of the Borrower.

7.2. The Bank reserves the right, in its sole discretion, not to replace any Physical Token in the case of misuse, or not to reactivate a SIDC User's Account.
### Attachment 3: Disbursement Linked Indicators Matrix

<table>
<thead>
<tr>
<th>DLI</th>
<th>ULGs have achieved Program minimum conditions as demonstrated in the annual performance assessment (APA)</th>
<th>Total financing allocated to DLI</th>
<th>As percent of total financing amount</th>
<th>DLI Baseline</th>
<th>Indicative timeline for DLI achievement</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLI 1</td>
<td>0</td>
<td>$90 million</td>
<td>23.68%</td>
<td>44 ULGs</td>
<td>Year 1 FY15</td>
</tr>
<tr>
<td>DLI 2</td>
<td>0</td>
<td>$158 million</td>
<td>41.58%</td>
<td>$21.8 million</td>
<td>$34.1 million</td>
</tr>
<tr>
<td>DLI 3</td>
<td>0</td>
<td>$75 million</td>
<td>19.74%</td>
<td>$10.3 million</td>
<td>$16.2 million</td>
</tr>
</tbody>
</table>

1. In the first year, the performance measures will only be applicable to the 18 ULGDP cities. The assessment of progress against performance measures of all 44 ULGs (including the new 26 ULGs) will begin in year 2.
2. See verification protocol and the disbursement table in attachment 4 for details.
<table>
<thead>
<tr>
<th>Allocated amount</th>
<th>$13 million</th>
<th>3.42%</th>
<th>$2.6 million</th>
<th>$2.6 million</th>
<th>$2.6 million</th>
<th>$2.6 million</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>DLI 5</strong></td>
<td></td>
<td></td>
<td><strong>44 ULG audits completed</strong></td>
<td><strong>44 ULG audits completed</strong></td>
<td><strong>44 ULG audits completed</strong></td>
<td><strong>44 ULG audits completed</strong></td>
</tr>
<tr>
<td>Offices of the Regional Auditor Generals (ORAGs) carry out timely audits of ULGs' financial reports (by January 7 of each financial year).</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocated amount</td>
<td>$7 million</td>
<td>1.84%</td>
<td>$1.4 million</td>
<td>$1.4 million</td>
<td>$1.4 million</td>
<td>$1.4 million</td>
</tr>
<tr>
<td><strong>DLI 6</strong></td>
<td></td>
<td></td>
<td><strong>44 ULG safeguards reviews/audits completed</strong></td>
<td><strong>44 ULG safeguards reviews/audits completed</strong></td>
<td><strong>44 ULG safeguards reviews/audits completed</strong></td>
<td><strong>44 ULG safeguards reviews/audits completed</strong></td>
</tr>
<tr>
<td>Regional environmental protection agencies (REPAs) timely review ULGs' safeguards compliance.</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocated amount</td>
<td>$6 million</td>
<td>1.58%</td>
<td>$1.2 million</td>
<td>$1.2 million</td>
<td>$1.2 million</td>
<td>$1.2 million</td>
</tr>
<tr>
<td><strong>DLI 7</strong></td>
<td></td>
<td></td>
<td><strong>44 ULG revenue mobilization supported</strong></td>
<td><strong>44 ULG revenue mobilization supported</strong></td>
<td><strong>44 ULG revenue mobilization supported</strong></td>
<td></td>
</tr>
<tr>
<td>Regional revenue authorities support ULGs' efforts to mobilize revenue</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Allocated amount</td>
<td>$4 million</td>
<td>1.05%</td>
<td>$2.0 million</td>
<td>$2.0 million</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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3 Five of the 18 cities currently participating in the ULGDP have received audits on time (by January 7, 2014) for financial year 2012/13 ((Ethiopian fiscal year 2005).

4 The regional revenue authorities will need time to build up the capacity within this area, and the tariff proclamations are expected to be up-dated only twice during the program period, hence results will be measured for the third and the fifth year of the Program.
<table>
<thead>
<tr>
<th>DLI 8</th>
<th>The annual MUDHCo capacity building activities for Program ULGs, regional governments, and the ministry completed.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Comprehensive annual Program capacity building plan in place and terms of reference developed</td>
</tr>
<tr>
<td></td>
<td>Capacity building plan in place, 80% of people in place and minimum 60% of the plan implemented</td>
</tr>
<tr>
<td></td>
<td>Capacity building plan in place, 80% of people in place and minimum 60% of the plan implemented</td>
</tr>
<tr>
<td></td>
<td>Capacity building plan in place, 80% of people in place and minimum 60% of the plan implemented</td>
</tr>
<tr>
<td></td>
<td>Capacity building plan in place, 80% of people in place and minimum 60% of the plan implemented</td>
</tr>
<tr>
<td>Allocated amount</td>
<td>$22 million</td>
</tr>
<tr>
<td>DLI 9</td>
<td>The APAs, independent procurement audits (IPAs), and value for money audits are procured and completed on time*</td>
</tr>
<tr>
<td></td>
<td>APA completed on time</td>
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<tr>
<td></td>
<td>APA completed on time</td>
</tr>
<tr>
<td></td>
<td>APA and value for money completed on time</td>
</tr>
<tr>
<td></td>
<td>APA and value for money completed on time</td>
</tr>
<tr>
<td>Allocated amount</td>
<td>US$5 million</td>
</tr>
<tr>
<td><strong>Total Financing Allocated:</strong></td>
<td>US$380 million</td>
</tr>
</tbody>
</table>

* Value for money audits will assess the quality, timeliness, and cost effectiveness of completed infrastructure (a sample of projects will be selected in each ULG) against standard benchmarks in line with the terms of reference for the auditors. The value for money audits will be conducted from the third assessment (of performance of investments during fiscal 2015), and the results will have a weight in the performance-based allocations of grants.
Attachment 4: Disbursement Table

<table>
<thead>
<tr>
<th>#</th>
<th>DLI</th>
<th>Bank financing allocated to the DLI (M US$)</th>
<th>Of which Financing available for Deadline for DLI Achievement Minimum DLI value to be achieved to trigger disbursements of Bank</th>
<th>Maximum DLI value(s) expected to be achieved for Bank disbursements purposes</th>
<th>Determination of Financing Amount to be disbursed against achieved and verified DLI values</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>ULGs have achieved Program minimum conditions as demonstrated in the APA</td>
<td>90</td>
<td>0</td>
<td>0</td>
<td>By Program completion</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>Prior results</td>
<td>Advances</td>
<td></td>
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<tr>
<td>2</td>
<td>ULGs have strengthened institutional performance as demonstrated in the APA(^1)</td>
<td>158</td>
<td>0</td>
<td>0</td>
<td>By Program completion</td>
</tr>
<tr>
<td></td>
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</tbody>
</table>

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\(^1\) Composite index of performance based on performance in the areas of planning, revenue enhancement, assets management, fiduciary systems, procurement, accountability/oversight systems, environmental and social systems management and urban land management. Details are presented in the Program Operations Manual.
Bank of which Deadline Minimum Maximum DLI Determination of Financing Amount to be disbursed against

<table>
<thead>
<tr>
<th>#</th>
<th>DLI</th>
<th>Bank financing allocated to the DLI (M US$)</th>
<th>Of which Financing available for Prior, results Advances</th>
<th>Deadline for DLI Achievement</th>
<th>Minimum DLI value to be achieved to trigger disbursements of Bank</th>
<th>Maximum DLI value(s) expected to be achieved for Bank disbursements purposes</th>
<th>Determination of Financing Amount to be disbursed against achieved and verified DLI values</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Disbursement will be made provided that previous disbursements from government to ULGs have all been made.

Disbursement from the government to ULGs will be determined as: Total disbursement amount (as calculated above) divided across compliant ULGs in accordance with population and score.

Formula for disbursement from IDA to the government is:

- \[ \text{[total annual disbursement]} = \left( \frac{\sum \text{of individual scores of all ULGs} + \text{first year only 18 ULGs}}{44 \text{ (first year only 18 ULGs)}} \right) \div \text{[target score for the financial year]} \times \text{[target disbursement amount i.e. $34.1 million for 44 ULGs from the 2015/16 and the following years (first financial year only $21.8 million for the 18 ULGs)]} \]

Performance targets for this DLI are:

- 2014/15: 60 points
- 2015/16: 65 points
- 2016/17: 70 points
- 2017/18: 75 points
- 2018/19: 80 points

Formula for disbursement from government to ULGs in 2014/15 is:
### Table: Determination of Financing Amount to be disbursed against achieved and verified DLI values

<table>
<thead>
<tr>
<th>#</th>
<th>DLI</th>
<th>Bank financing allocated to the DLI (M US$)</th>
<th>Of which Financing available for</th>
<th>Deadline for DLI Achievement</th>
<th>Minimum DLI value to be achieved to trigger disbursements of Bank</th>
<th>Maximum DLI value(s) expected to be achieved for Bank disbursements purposes</th>
<th>Determination of Financing Amount to be disbursed against achieved and verified DLI values</th>
</tr>
</thead>
</table>
| 3  | ULGs have delivered infrastructure, maintenance, and supported job creation as per their capital investment plans and | 75 | 0 | 0 | By Program completion | 0 | 100 | Formula for disbursement from government to ULGs in 2015/16 and following years is:  
- \[ \text{disbursement to any ULG} = \frac{[\text{population of ULG} \times \text{performance score of ULG}]}{\sum (\text{population of ULG 1-18} \times \text{performance score of ULG 1-18})} \times \text{total disbursement amount for the financial year}, \] providing that the ULG has complied with the minimum conditions.  

Note: For the new 26 ULGs, this DLI will only be applied from 2015/16 and the following financial years, hence amount to be distributed (US$21.8 million in 2014/15) will only be allocated across the 18 ULGs |

Disbursement from the IDA to government will be determined as:

1. Compliance of ULGs with minimum access conditions measured (as above);
2. Sum of score of all ULGs calculated (non-minimum condition compliant ULGs are assigned a score of zero) and divided by 18 (in the first 2014/15) and by 44 ULGs in 2015/16 and the following financial years (2015/16–2018/19).
3. A. If score equal to target for the financial year, full allocation,
<table>
<thead>
<tr>
<th>#</th>
<th>DLI</th>
<th>Bank financing allocated to the DLI (M US$)</th>
<th>Of which Financing available for</th>
<th>Deadline for DLI Achievement</th>
<th>Minimum DLI value to be achieved to trigger disbursements of Bank</th>
<th>Maximum DLI value(s) expected to be achieved for Bank disbursements purposes</th>
<th>Determination of Financing Amount to be disbursed against achieved and verified DLI values</th>
</tr>
</thead>
</table>
| 1 | their annual action plans, as demonstrated in the APA, and ensured that value for money is achieved.² | | | | | | B. If score below target for the financial year, prorata reduction,  
C. If score above target for the financial year, pro-rata increase.  
Disbursement from the government to ULGs will be determined as: Total disbursement amount (as calculated above) divided across compliant ULGs in accordance with population and score.  
Formula for disbursement from government to ULGs in 2014/15 is:  
- \[ \text{[total annual disbursement]} = \left(\frac{\text{sum of individual scores of all ULGs}/44 \text{ (first year only 18 ULGs)}}{\text{target score for the financial year}}\right) \times \text{[target disbursement amount i.e. $16.2m for 44 ULGs from the 2015/16 and the following years (first financial year, the amount is: US$10.3 million for the 18 ULGs)]} \]  
Performance targets for this DLI are:  
2015/16: 60 points  
2016/17: 65 points  
2017/18: 70 points  
2018/19: 75 points  
2019/20: 80 points  
Formula for disbursement from government to ULGs in 2014/15 is: |

² Composite index of performance based on areas in infrastructure implementation, maintenance performance, planning and implementation on job creation and value for the money of investments implemented. Details are presented in the Program Operations Manual.
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>4</td>
<td>Regional government capacity building and support teams in place and support urban service</td>
<td>13</td>
<td>0</td>
<td>0</td>
<td>X</td>
<td>18 ULGAs</td>
<td>US$ 2,600,000 per year provided that conditions are fulfilled.</td>
</tr>
</tbody>
</table>

- \[ \text{disbursement to any ULG} = \frac{\text{population of ULG} \times \text{performance score of ULG}}{\sum (\text{population of ULG 1-..44} \times \text{performance score of ULG 1-..44})} \times \text{total disbursement amount for the financial year} \], providing that the ULGA has complied with the minimum conditions.

Formula for disbursement from government to ULGs in 2015/16 and following years is:

- \[ \text{disbursement to any ULG} = \frac{\text{population of ULG} \times \text{performance score of ULG}}{\sum (\text{population of ULG 1-..48} \times \text{performance score of ULG 1-..48})} \times \text{total disbursement amount for the financial year} \], providing that the ULG has complied with the minimum conditions.

*Note: For the new 26 ULGs, this DLI will only be applied from 2015/16, hence amount to be distributed (US$10.3 million in 2014/15) will only be allocated across the 18 ULGs.

Disbursement will be made provided that previous disbursements from government to ULGs have all been made.

First year release for 2014/15: Condition for release is the work-plan and TOR for the 4 regional support teams 36 staff/4 X 8 staff for the core positions defined in the Program Operations Manual, in place as per TOR (before the start of 2014/15), checked by APA).

Second disbursement year (2015/16): Teams are in place and operating. Minimum 80% of the staff in place: 100% allocation.
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<tr>
<td></td>
<td>delivery</td>
<td></td>
<td></td>
<td></td>
<td>50–80%: 50% allocation, less than 50%. No allocation. Additional condition is that the region has adopted service delivery standards (as issued by MUDHCo), and issued those for the cities, and provided guidance in implementation (reports). (Documented by APA review October 2014).</td>
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<tr>
<td></td>
<td>5</td>
<td>Offices of the Regional Auditor Generals (ORAGs) carry out timely audits</td>
<td>7</td>
<td></td>
<td>Third disbursement (2016/17): Teams are in place (minimum 80% of the staff), and review of execution rate in 2014/15 (more than 80% of planned activities implemented = full allocation 60–80 = 50%, less than 50% = no allocation).</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

- Additional condition is that the region has adopted service delivery standards (as issued by MUDHCo), and issued those for the cities, and provided guidance in implementation (reports). Documented by APA review October 2014.

**Note that it is an additional condition for disbursement that the region has adopted service delivery standards (as issued by MUDHCo), and issued those for the cities, and provided guidance in implementation as well as monitoring (report). Documented by APA October 2015.**

- Similar for following years.

  - This condition is only valid if MUDHCo has issued the service delivery standards to the regions.

- Calibrated according to number of teams with the required composition and activity level.

**Audit (US$7,000,000)/ 5 years = US$1,400,000 per year**

Disbursement calibrated in a manner where each region receives US$31,818 per ULG, for which the audit has been made for the accounts of the previous financial year. If a region has covered 7 ULGs in a timely fashion, it will be allocated 7 X US$31,818.
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<td></td>
<td></td>
<td></td>
<td>Prior results</td>
<td>Advances</td>
<td></td>
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</tr>
<tr>
<td>6</td>
<td>Regional environmental protection agencies (REPAs) timely review ULGs’ safeguards compliance</td>
<td>6</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>Regional revenue authorities support ULGs’ efforts to mobilize revenue</td>
<td>4</td>
<td>0</td>
<td>0</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The timeliness of audit is reviewed and verified by the APA teams in January each year, with implications for the allocations for the following financial year.

Amount of funds is calibrated in accordance with number of timely audit in the regions (timely audit means that the final audit report is issued no later than January 7 after the financial year for which the audit concerns).

**Environmental and social safeguards audit and reviews:**

US$6,000,000 / 5 years = US$1,200,000 per year:

Disbursement calibrated in a manner where the disbursement is: US$27,273 per ULG for which the region has performed timely review/audit and approval of safeguard documents and review of implementation capacity for environmental and social mitigation and monitoring measures for CIP and environmental and social audit (annual).

If a region has conducted timely audit of 6 ULGs, the allocation will be 6 X US$27,273.

US$4,000,000 / 2 times (third and the fifth year) = US$2,000,000 per time for 2016/17 and 2018/19).

Disbursements are made according to the number of ULGs where regions have conducted consultative review with ULGs of municipal revenues/tariff/tax rates and bands, and revenue enhancement plans, and up-dated tariff proclamations with consultation and decisions recorded in regional council minutes in the year prior to the APA:
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<tr>
<td>8.</td>
<td>The annual MUDHCo capacity building activities for Program ULGs, regional governments, and the ministry completed</td>
<td>22</td>
<td>Prior results</td>
<td>Advances</td>
<td></td>
<td></td>
<td>Disbursement calibrated as US$44,455 per ULG where conditions are fulfilled.</td>
</tr>
</tbody>
</table>

22 million /5 years = US$4.4 million per year.

First year (2014/15):

Minimum condition for disbursement: Plan prepared for the technical federal support teams in place: \((12 + 11 = 23\) staff), covering the developing regional states, Dire Dawa, Harar + remaining regions + and for backstopping support of all ULGs and support to MUDHCo according to standard format as per the Operational Manual, and with the details on minimum level visits to ULGs, staff weeks in ULGs etc. and terms of reference for positions.

Following years (2015/2016 and the following financial years):

Minimum 60 days prior to the financial year, MUDHCo provides information on capacity building plan in place (updated for the coming financial year), and review of execution rates in the ongoing), see below. Plan should be adopted for the future fiscal year, and minimum 80 percent of the 23 staff must be in place and the execution rate of the planned activities should be above 60 percent: 100 percent allocation.

If minimum 60 percent of staff in place and minimum 40–60 percent execution: 60 percent allocation.

Below 60 percent of staff in place and/or below 40 percent execution: No allocation.
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<td>9.</td>
<td>The APAs, independent procurement audits (IPAs), and value for money audits are procured and completed on time</td>
<td>5</td>
<td>0</td>
<td>0</td>
<td>US$5,000,000 = US$1,000,000 per year.</td>
<td>Disbursement of funds is made upon timely APAs and from third assessment (value for money audits). “Timely” is defined as by end of January in the year prior to the fiscal year where funds to ULGs are allocated. First year will have an exemption and the deadline will be before the beginning of the financial year. As the value for money audit is only conducted from the third year of the Program (September–December 2017), the APA will count 100 percent in fiscal 2015 and fiscal 2016 allocations. Thereafter, the two assessments will have an equal weight in the disbursement rates. The disbursement is on/off where APA and value for money audit count 50 percent each, that is if the APA has been conducted timely, US$500,000 is released in the following fiscal year and similar for the value for money audit. in the first two fiscal years, where there is no value for money audit, the APA will count by 100 percent, that is US$1 million. The procurement audit will be supported and conducted by the public procurement agency from the third year, and the condition is that results are fitting into the APA in the area of procurement, or is covered by the APA.</td>
<td></td>
</tr>
</tbody>
</table>