Financing Agreement

(Second Urban Local Government Development Program)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated [June 6, 2014]
CREDIT NUMBER 5435-ET

FINANCING AGREEMENT

AGREEMENT dated 11/06/2014, entered into between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA ("Recipient") and 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) with modifications set out in Section II of the Appendix to this Agreement constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to two hundred forty five million six hundred thousand Special Drawing Rights (SDR 245,600,000) (variously, "Credit" and "Financing"), to assist in financing the program described in Schedule I to this Agreement ("Program").

2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section IV of Schedule 2 to this Agreement. All withdrawals from the Financing Account shall be deposited by the Association into an account specified by the Recipient and acceptable to the Association.

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 The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.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 February 15 and August 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 Dollar.
ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the objective of the Program. To this end, the Recipient shall through MUDHCo carry out the Program 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 Program is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

4.01. The Additional Events of Suspension consist of the following:

(a) A situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

(b) The Program has been modified or suspended so as to affect materially and adversely the ability of the Recipient to achieve the objective of the Program.

4.02. The Additional Events of Acceleration consist of the following, namely that either of the Events specified in Section 4.01 of this Agreement occurs.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

5.02. For purposes of Section 8.05(b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. Except as provided in Section 2.02 of this Agreement, the Recipient's Representative is its Minister responsible for finance.
6.02. The Recipient's Address is:

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

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

6.03. The Association's Address is:

International Development Association
1818 H Street, N.W.
Washington, D.C. 20433
United States of America

Cable: INDEVAS  Telex: 248423 (MCI)  Facsimile: 1-202-477-6391
AGREED at Addis Ababa, Federal Democratic Republic of Ethiopia, as of the day and year first above written.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By

Authorized Representative

Name: Sufian Ahmed
Title: Minister

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

Name: Guang Zhe Chen
Title: Country Director
SCHEDULE 1

Program Description

The objective of the Program is to assist the Recipient in enhancing the institutional performance of participating urban local governments in developing and sustaining urban infrastructure and services.

The Program is part of the Recipient's Urban Local Government Development Program and comprises the following activities: Supporting Program ULGs in urban infrastructure and services investments and capacity building, which include core urban infrastructure, such as, urban roads and drainage, sanitation services, public parks, street lighting, and related capacity building activities at the federal, regional and local levels.
SCHEDULE 2

Program Execution

Section I. Implementation Arrangements

A. Program Fiduciary, Environmental and Social Systems

Without limitation on the provisions of Article IV of the General Conditions, the Recipient shall carry out the Program, or cause the Program to be carried out, in accordance with financial management, procurement and environmental and social management systems acceptable to the Association ("Program Fiduciary, Environmental and Social Systems") which are designed to ensure that:

1. the Financing proceeds are used for their intended purposes, with due attention to the principles of economy, efficiency, effectiveness, transparency, and accountability; and

2. the actual and potential adverse environmental and social impacts of the Program are identified, avoided, minimized, or mitigated, as the case may be, all through an informed decision-making process.

B. Anti-Corruption

Without limitation on the provisions of Part A of this Section, the Recipient shall carry out the Program, or cause the Program to be carried out, in accordance with the provisions of the Anti-Corruption Guidelines.

C. Other Program Institutional and Implementation Arrangements

1. Program Institutions

Without limitation on the generality of Part A of this Section I, the Recipient shall ensure, at all times during the execution of the Program, the carrying out by the following institutions of responsibilities for Program implementation described herein below:

(a) Federal level

(i) MUDHCo to be responsible for the overall coordination, oversight, monitoring and evaluation of the Program.

(ii) MOFED to be responsible for overall financial and auditing aspects of the Program.
(b) **Regional level**

(i) Each bureau for urban development at the regional level to be responsible for, but not limited to, the following with respect to the Program ULGs within its jurisdiction: (1) coordinating implementation; (2) ensuring compliance of the Program’s requirements; (3) providing technical assistance; (4) facilitating the Program ULGs’ access to other capacity building support mechanisms; and (5) providing consolidated Project progress reports to MUDHCo.

(ii) Each BOFED to be responsible for, but not limited to, the following with respect to the Program ULGs within its jurisdiction: (1) providing approved financing (funds from MoFED and matching funds from the Regions to Program ULGs); and (2) preparing and submitting consolidated regional semi-annual financial reports to MOFED, which shall in turn submit them to the Association.

(c) **ULG level**

The Mayor’s Office within each Program ULG to be responsible for the performance of the Program ULG regarding overall coordination, planning, financial management, infrastructure service delivery and reporting requirements.

2. **Program Operations Manual**

(a) The Recipient shall adopt, in form and substance satisfactory to the Association a Program Operations Manual containing detailed institutional, administrative, financial, technical and operational guidelines and procedures for the implementation of the Program, including, *inter alia*:

(i) description of Minimum Access Conditions and associated performance indicators;

(ii) description of the investment and capacity building activities to be financed under the Program;

(iii) performance assessment guidelines containing detailed protocols, guidelines, procedures and other arrangements for the carrying out of Annual Performance Assessments, including, *inter alia* a methodology for determining, in each EFY whether Program ULGs have met all DLRs, and formula/performance
score systems for calculating the disbursement amounts for the EFY; and

(iv) an environmental and social management manual containing guidelines for, inter alia: assessing potential environmental and social impacts of the Program; and appropriate mitigation, management, and monitoring measures in respect of said impacts.

(b) The Recipient shall thereafter carry out the Program in accordance with the Program Operations Manual; and shall not amend, abrogate or suspend, or permit to be amended, abrogated or suspended, any provision of the Program Operations Manual, without the prior written agreement of the Association. Notwithstanding the foregoing, if any provision of said Program Operations Manual is inconsistent with the provisions of this Agreement, the provisions of this Agreement shall prevail.

3. Program Participation Agreements

(a) The Recipient shall ensure that no ULG is eligible to participate in the Program until the Recipient through MUDHCo has entered into a tripartite Program Participation Agreement ("PPA"), acceptable to the Association, with each Program ULG and the Region where the Program ULG is located therein, detailing their respective responsibilities for the implementation of activities under the Program. The PPA shall include financial contributions made or to be made by the Program ULG and its respective Region to the Program and the terms and conditions that the Program ULG shall follow in implementing the Program, which shall include, inter alia:

(i) carry out its activities under the Program with due diligence and efficiency and in accordance with the Program Fiduciary, Environmental and Social Management Systems, the Anti-corruption Guidelines; and the Program Operations Manual;

(ii) maintain policies and procedures adequate to enable it to monitor and evaluate the progress of its activities under the Program and the achievement of the Program’s objective;

(iii) enable the Recipient (and the Association, if the Association shall so request) to inspect the activities within said Program ULG’s jurisdiction, its operation and any relevant records and documents; and
(iv) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association may reasonably request relating to, among others, the provisions of subparagraphs (i), (ii) and (iii).

(b) The Recipient shall exercise its rights and perform its obligations under each PPA in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Financing. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any PPA or any of its provisions. Notwithstanding the foregoing, if any provision of said PPA is inconsistent with the provisions of this Agreement, the provisions of this Agreement shall prevail.

4. **Budgetary Allocation**

Throughout the Program implementation, the Recipient shall ensure that sufficient budget is provided to MUDHCo in a timely manner to enable MUDHCo to implement Program activities related to Annual Performance Assessments, capacity building and procurement audits.

5. **Additional Program Implementation Arrangements**

The Recipient shall carry out the Action Plan in accordance with the schedule set out in the said Action Plan in a manner satisfactory to the Association.

**Section II. Excluded Activities**

The Recipient shall ensure that the Program excludes any activities which:

A. in the opinion of the Association, are likely to have significant adverse impacts that are sensitive, diverse, or unprecedented on the environment and/or affected people; or

B. involve the procurement of: (1) works, estimated to cost US$50,000,000 equivalent or more per contract; (2) goods, estimated to cost US$30,000,000 equivalent or more per contract; (3) non-consulting services, estimated to cost US$20,000,000 equivalent or more per contract; or (4) consultants' services, estimated to cost US$15,000,000 equivalent or more per contract.
Section III. Program Monitoring, Reporting and Evaluation; Audits

A. Program Reports

The Recipient shall monitor and evaluate the progress of the Program and prepare Program Reports in accordance with the provisions of Section 4.08 of the General Conditions. Each Program Report shall cover the period of one calendar semester, and shall be furnished to the Association not later than forty-five (45) days after the end of the period covered by such report.

B. Program Financial Audits

Without limitation on the generality of Section I.A of this Schedule 2 and Section 4.09 of the General Conditions, the Recipient shall have the Financial Statements audited in accordance with the provisions of Section 4.09(b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than six (6) months after the end of such period.

C. Annual Performance Assessment

Without limitation on the provisions of Part A of this Section III, the Recipient shall, for each Program ULG and for each EFY throughout the period of implementation of the Program:

1. carry out or cause to be carried out, in accordance with the Program Operations Manual, an assessment covering an EFY to determine: (a) whether the Program ULG has met the DLRs for said EFY; (b) the disbursement amount for the Program ULG for said EFY based on the calculation formula/performance score system as stipulated in the Additional Instructions and the Program Operations Manual;

2. furnish said assessment, by not later than January 31 each year (for the first assessment, not later than June 30, 2014, (EFY2006), to the Association for its review; and

3. for purposes of carrying out each such assessment, engage independent consultants, not later than September 30 of each year, with terms of reference, qualifications, and experience satisfactory to the Association.
D. Value for Money Audits

Without limitation on the provisions of Part B of this Section III, the Recipient shall: (1) begin in September 2015 (EFY 2008), carry out under terms of reference satisfactory to the Association, a value for money audit of the Program activities implemented by the Program ULGs in the preceding EFY and furnish said audit, as a part of the Annual Performance Assessment, to the Association not later than six (6) months after the end of the EFY to which the audit relates; and (2) ensure that the findings of the audit are taken into account in the Annual Performance Assessment for the EFY to which the audit relates.

E. Annual Procurement Audit

Without limitation on the provisions of Parts B, C & D of this Section III, the Recipient shall: (1) begin in September 2016 (EFY 2009), carry out under terms of reference satisfactory to the Association, an annual procurement audit of the Program procurement activities implemented by the Program ULGs in the preceding EFY and furnish said audit, along with a satisfactory management response as to how the audit issues have been resolved, to the Association not later than six (6) months after the end of the EFY to which the audit relates; and (2) ensure that the findings of the audit are taken into account in the Annual Performance Assessment for the EFY to which the audit relates.

Section IV. Withdrawal of Financing Proceeds

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 may specify from time to time by notice to the Recipient to finance the Program Expenditures, on the basis of the results ("Disbursement Linked Results" or "DLRs") achieved by the Recipient, as measured against specific indicators ("Disbursement Linked Indicators" or "DLIs"); all as set forth in the table in paragraph 2 of this Part A.

2. The following table specifies each category of withdrawal of the proceeds of the Financing (including the Disbursement Linked Indicators as applicable) ("Category"), the Disbursement Linked Results for each Category (as applicable), and the allocation of the amounts of the Financing to each Category:
<table>
<thead>
<tr>
<th>Category (including Disbursement Linked Indicator)</th>
<th>Disbursement Linked Result</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) DLI #1: Extent to which Program ULGs have achieved the Minimum Access Conditions</td>
<td>DLR#1.1: The Program ULGs have met the Minimum Access Conditions for 2014/15 (EFY 2007)</td>
<td>58,200,000</td>
</tr>
<tr>
<td></td>
<td>DLR#1.2: The Program ULGs have met the Minimum Access Conditions for 2015/16 (EFY 2008)</td>
<td></td>
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<tr>
<td></td>
<td>DLR#1.3: The Program ULGs have met the Minimum Access Conditions for 2016/17 (EFY 2009)</td>
<td></td>
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<tr>
<td></td>
<td>DLR#1.4: The Program ULGs have met the Minimum Access Conditions for 2017/18 (EFY 2010)</td>
<td></td>
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<tr>
<td></td>
<td>DLR#1.5: The Program ULGs have met the Minimum Access Conditions for 2018/19 (EFY 2011)</td>
<td></td>
</tr>
<tr>
<td>(2) DLI #2: Extent to which Program ULGs have strengthened their institutional performance, as measured by the Annual Performance Assessment (APA)</td>
<td>DLR#2.1: Program ULGs’ Average Score is 60 for 2014/15 (EFY 2007)</td>
<td>102,100,000</td>
</tr>
<tr>
<td></td>
<td>DLR#2.2: Program ULGs’ Average Score is 65 for 2015/16 (EFY 2008)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DLR#2.3: Program ULGs’ Average Score is 70 for 2016/17 (EFY 2009)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DLR#2.4: Program ULGs’ Average Score is 75 for 2017/18 (EFY 2010)</td>
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</tr>
<tr>
<td></td>
<td>DLR#2.5: Program ULGs’ Average Score is 80 for 2018/19 (EFY 2011)</td>
<td></td>
</tr>
<tr>
<td>(3) DLI #3: Extent to which Program ULGs have implemented their local infrastructure, maintenance,</td>
<td>DLR#3.1: Program ULGs’ Average Score is 60 for 2014/15 (EFY 2007)</td>
<td>48,500,000</td>
</tr>
<tr>
<td></td>
<td>DLR#3.2: Program ULGs’ Average Score is 65 for 2015/16 (EFY 2008)</td>
<td></td>
</tr>
<tr>
<td>Category (including Disbursement Linked Indicator)</td>
<td>Disbursement Linked Result</td>
<td>Amount of the Financing Allocated (expressed in SDR)</td>
</tr>
<tr>
<td>---------------------------------------------------</td>
<td>-----------------------------</td>
<td>---------------------------------------------------</td>
</tr>
</tbody>
</table>
| and job creation activities, as measured against their Capital Investment Plans and their Annual Action Plans. | DLR#3.3: Program ULGs’ Average Score is 70 for 2016/17 (EFY2009)  
DLR#3.4: Program ULGs’ Average Score is 75 for 2017/18 (EFY2010)  
DLR#3.5: Program ULGs’ Average Score is 80 for 2018/19 (EFY2011) | 8,400,000 |
| (4) DLI #4: Extent to which the Regions have provided capacity building support to their respective Program ULGs in urban service delivery | DLR#4.1: Regions have prepared capacity building plans (CBPs) acceptable to MUDHCo and the Association and terms of reference for their Program support teams (TOR) for 2014/15 (EFY 2007)  
DLR#4.2: Regions have their Program support teams in place and operational for 2015/16 (EFY 2008)  
DLR#4.3: Regions have maintained their Program support teams and provided adequate capacity building support to their respective Program ULGs for 2016/17 (EFY2009)  
DLR#4.4: Regions have maintained their Program support teams and provided adequate capacity building support to their respective Program ULGs for 2017/18 (EFY2010)  
DLR#4.5: Regions have maintained their Program support teams and provided adequate capacity building support to their respective Program ULGs for 2018/19 (EFY2011) | 8,400,000 |
| (5) DLI #5: Extent to which Regional Government Audit Agencies (ORAGs) have carried out financial audits for | DLR#5.1: ORAGs completed said audits for the Program Expenditures for their respective Program ULGs for 2014/15 (EFY2007)  
DLR#5.2: ORAGs completed said audits for the Program Expenditures for their respective Program ULGs for 2015/16 (EFY2008) | 4,500,000 |
### Category (including Disbursement Linked Indicator)

<table>
<thead>
<tr>
<th>Category</th>
<th>Disbursement Linked Result</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>the Program expenditures for the Program ULGs in their jurisdictions</td>
<td>Respective Program ULGs for 2015/16 (EFY2008)</td>
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</tr>
<tr>
<td></td>
<td>DLR#5.3: ORAGs completed said audits for the Program Expenditures for their respective Program ULGs for 2016/17 (EFY 2009)</td>
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</tr>
<tr>
<td></td>
<td>DLR#5.4: ORAGs completed said audits for the Program Expenditures for their respective Program ULGs for 2017/18 (EFY 2010)</td>
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</tr>
<tr>
<td></td>
<td>DLR#5.5: ORAGs completed said audits for the Program Expenditures for their respective Program ULGs for 2018/19 (EFY2011)</td>
<td></td>
</tr>
<tr>
<td>(6) DLI #6: Extent to which the Regional Environmental Protection Agencies (REPAs) have reviewed environmental and social safeguards compliance in a timely manner for their respective Program ULGs in their jurisdictions in implementing the Program</td>
<td>DLR#6.1: REPAs have developed terms of reference and action plans for the environmental and social compliance reviews for their respective Program ULGs for 2014/15 (EFY 2007)</td>
<td>3,900,000</td>
</tr>
<tr>
<td></td>
<td>DLR#6.2: REPAs completed said environmental and social compliance reviews for their respective Program ULGs for 2015/16 (EFY 2008)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DLR#6.3: REPAs completed said environmental and social compliance reviews for their respective Program ULGs for 2016/17(EFY 2009)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>DLR#6.4: REPAs completed said environmental and social compliance reviews for their respective Program ULGs for 2017/18 (EFY 2010)</td>
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</tr>
<tr>
<td></td>
<td>DLR#6.5: REPAs completed said environmental and social compliance reviews for their respective Program ULGs for 2018/19 (EFY 2011)</td>
<td></td>
</tr>
<tr>
<td>Category (including Disbursement Linked Indicator)</td>
<td>Disbursement Linked Result</td>
<td>Amount of the Financing Allocated (expressed in SDR)</td>
</tr>
<tr>
<td>-------------------------------------------------</td>
<td>-----------------------------</td>
<td>---------------------------------------------------</td>
</tr>
</tbody>
</table>
| (7) DLI #7: Extent to which the Regional Revenue Authorities (RRAs) supported their respective Program ULGs in revenue mobilization | DLR#7.1: RRAs provided adequate revenue mobilization support to their respective Program ULGs prior to commencing the Annual Performance Assessment for disbursing Credit for 2016/17 (EFY2009)  
DLR#7.2: RRAs provided adequate revenue mobilization support to their respective Program ULGs prior to commencing the Annual Performance Assessment for disbursing Credit for 2018/19 (EFY2011) | 2,600,000 |
| (8) DLI #8: Extent to which MUDHCo' implemented its annual capacity building activities within the ministry and for the Program ULGs and the Regions | DLR#8.1: MUDHCo has prepared terms of reference (TOR) for new positions required to be filled and developed an annual capacity building plan (CBP) for the Regions and the Program ULGs for 2014/15 (EFY2007)  
DLR#8.2: MUDHCo has put in place 80% of staff required by the TOR and has implemented 60% of CBP for 2015/16 (EFY2008)  
DLR#8.3: MUDHCo has maintained at least 80% of staff required by the TOR and has implemented 60% of CBP for 2016/17 (EFY2009)  
DLR#8.4: MUDHCo has maintained at least 80% of staff required by the TOR and has implemented 60% of CBP for 2017/18 (EFY2010)  
DLR#8.5: MUDHCo has maintained at least 80% of staff required by the TOR and has implemented 60% of CBP for 2018/19 (EFY2011) | 14,200,000 |
<p>| (9) DLI #9: Extent to which MUDHCo has engaged consultants in a timely manner | DLR#9.1: MUDHCo has engaged consultants to enable the completion APAs in a timely manner for all Program ULGs for 2014/15 (EFY2007) | 3,200,000 |</p>
<table>
<thead>
<tr>
<th>Category (including Disbursement Linked Indicator)</th>
<th>Disbursement Linked Result</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
</table>
| to ensure timely completion of APAs, annual procurement audits, and value for money audits | DLR#9.2: MUDHCO has engaged consultants to enable the completion APAs in a timely manner for all Program ULGs for 2015/16 (EFY 2008)  
DLR#9.3: MUDHCO has engaged consultants to enable the completion APAs, annual procurement audits, and value for money audits in a timely manner for all Program ULGs for 2016/17 (EFY2009)  
DLR#9.4: MUDHCO has engaged consultants to enable the completion APAs, annual procurement audits, and value for money audits in a timely manner for all Program ULGs for 2017/18 (EFY2010)  
DLR#9.5: MUDHCO has engaged consultants to enable the completion APAs, annual procurement audits, and value for money audits in a timely manner for all Program ULGs for 2018/19 (EFY2011) | 245,600,000 |

TOTAL AMOUNT
B. Withdrawal Conditions; Withdrawal Period

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

   (a) for purposes of Section 2.05 of the General Conditions, for payments for Program Expenditures made prior to the date of this Agreement;

   (b) for each DLI, the corresponding DLR is subdivided into separate yearly achievement levels and each such level is allocated a Financing amount withdrawable according to such level’s degree of achievement, all as set forth in the Additional Instructions;

   (c) for all DLRs, withdrawals shall be made in amounts proportional to their degree of achievement as calculated in accordance with the methodology as set out in the Program Operations Manual (these are “Scalable DLRs”);

   (d) for each DLI associated with a Scalable DLR, a single baseline level (“Baseline”) is assigned, as set forth in the Additional Instructions, against which to measure progress in the achievement of its corresponding DLR;

   (e) no withdrawal shall be made for any yearly DLR, until and unless the Recipient has furnished evidence, verified according to protocols set forth in the Verification Protocol and thus satisfactory to the Association, that said DLR has been achieved in whole or in part, during the corresponding calendar year, as set forth in the Additional Instructions; or

   (f) amounts not withdrawn for a given EFY, because of a shortfall in achievement of a DLR, can be rolled over into a subsequent year and then withdrawn to the extent the delayed achievement would have justified disbursement had it been attained on time.

2. Notwithstanding the provisions of Part B.1 of this Section, if the Association determines that the DLRs are not being achieved at the annual pace set forth in the Additional Instructions, the Association may, at any time, after consultation with the Recipient, decide, in its sole discretion, to: (a) reallocate all or a portion of the proceeds of the Financing then allocated to said DLR to any other DLR; and/or (b) cancel all or a portion of the proceeds of the Financing then allocated to said DLR.

3. The Closing Date is December 31, 2019.
4. Notwithstanding the foregoing provisions of this Section IV, if at any time after the Closing Date the Recipient has failed to provide evidence satisfactory to the Association that the Withdrawn Financing Balance does not exceed the total amount of Program Expenditures paid by the Recipient, exclusive of any such expenditures financed by any other financier or by the Association or the Association under any other loan, credit or grant, the Recipient shall, promptly upon notice from the Association, refund to the Association such excess amount of the Withdrawn Financing Balance. The Association shall cancel the refunded amount of the Withdrawn Financing Balance.
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>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15:</td>
<td></td>
</tr>
<tr>
<td>commencing August 15, 2024, to and including February 15, 2034</td>
<td>1%</td>
</tr>
<tr>
<td>Commencing August 15, 2034, to and including February 15, 2054</td>
<td>2%</td>
</tr>
</tbody>
</table>

* 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

Section I. Definitions

1. "Additional Instructions" means the disbursement letter, from the Association to the Recipient, of even date wherewith, as may be amended by the Association from time to time and referred to under Section IV.A.1 of Schedule 2 to this Agreement.

2. "Action Plan" means the Recipient’s plan dated March 12, 2014, and referred to in Part C.5 of Section I of Schedule 2 to this Agreement, as may be amended from time to time with the agreement of the Association.

3. "Annual Action Plan" means the plan prepared by each Program ULG for implementing its three year rolling Capital Investment Plan (CIP) (as defined hereinunder).

4. "Annual Performance Assessment" or "APA" means each assessment, referred to in Section III.C of Schedule 2 to this Agreement, to be carried out by independent verification agents in accordance with the provisions thereof, and the term "Annual Performance Assessments" or "APAs" means the plural thereof.


6. "Average Score" means for a given EFY, the performance average score of all Program ULGs measured against the performance indicators as set out in the Program Operations Manual and calculated in accordance with the methodology described in said Manual.

7. "BOFED" means the Bureau of Finance and Economic Development at the regional level, or any successor thereto.

8. "Capital Investment Plan" means the rolling three year capital investment plan prepared by each Program ULG, which includes an action plan, a procurement plan, and annual budget and financing for implementing each year’s capital investments in infrastructure, maintenance and job creation activities.

9. "Category" means a category set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.

10. "Chartered City" means Dire Dawa City Administration, as defined in the federal charter proclamations, and any successor thereto.
11. "Disbursement Linked Indicator" or "DLI" means in respect of a given Category, the indicator related to said Category as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement.

12. "Disbursement Linked Result" or "DLR" means in respect of a given Category, the result under said Category as set forth in the table in Section IV.A.2 of Schedule 2 to this Agreement, on the basis of the achievement of which, the amount of the Financing allocated to said result may be withdrawn in accordance with the provisions of said Section IV.

13. "Ethiopian Fiscal Year" or "EFY" means the Fiscal Year of the Recipient which commences on July 8 and ends on July 7.

14. "Region" means the second tier of government in the administrative system of Recipient established under the Recipient's Federal Constitution of 1995; and the term "Regions" means the plural thereof.

15. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 31, 2010, with the modifications set forth in Section II of this Appendix.

16. "Minimum Access Conditions" means the minimum institutional, financial, planning and budgeting, procurement, functional, audit, reporting and accountability, implementation and environmental and social safeguards standards that must be attained by Program ULGs in each EFY to be eligible to receive funds under the Program, as said standards and the methodology for determining their achievement shall be defined in the Program Operations Manual.


19. "ORAGs" means the Government audit agencies at the regional level.

20. "Program Operations Manual" means the manual adopted by the Recipient, dated March 12, 2014, and referred to in paragraph C.2 of Section I of Schedule 2 to this Agreement.

21. "Program Participation Agreement" means with respect to each Program ULG, the agreement acceptable to the Association to be entered into among the Recipient, said Program ULG and the Region where the Program ULG is located.
therein, in accordance with the provisions of paragraph C.3 of Section 1 of Schedule 2 to this Agreement.

22. “Program Fiduciary and Environmental and Social Systems” means the Recipient’s systems for the Program referred to in Section I.A of Schedule 2 to this Agreement.

23. “Program ULG” means a ULG which has met the selection criteria for participating in the Program as set out in the Program Operations Manual, and the term “Program ULGs” means the plural thereof.

24. “REPAs” means the Government environmental protection agencies at the regional level.

25. “ULGs” means, collectively, (i) the Chartered City, and (ii) the urban administrative areas within the Recipient’s territory, established and operating pursuant to the respective Regional proclamations, and “ULG” means any of the above ULGs.

26. “Urban Local Government Development Program” means the Recipient’s urban local Government development program established in 2008 as described in the Ethiopian Cities Prosperity Initiative dated November 2013, whose main objective is to leverage institutional capacity at the urban local government level to improve service delivery and urban infrastructure.

27. “Verification Protocol” means the Recipient’s protocol detailing the means by which the fulfillment of the Disbursement Linked Results will be verified under the Program, as described in the Program Operations Manual.

Section II. Modifications to the General Conditions

The modifications to the General Conditions are as follows:

1. Wherever used throughout the General Conditions, the term “the Project” is modified to read “the Program”, the term “the Project Agreement” is modified to read “the Program Agreement”, the term “Project Implementing Entity” is modified to read “the Program Implementing Entity”, the term “Project Report” is modified to read “Program Report”; and the term “Eligible Expenditures” is modified to read “Program Expenditures”.

2. In the Table of Contents, the references to Sections, Section names and Section numbers are modified to reflect the amendments set out below.

3. Section 2.02, Special Commitment by the Association, is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.
4. In Section 2.02 (originally numbered as Section 2.03), the heading "Applications for Withdrawal or for Special Commitment" is replaced with "Applications for Withdrawal", and the phrase "or to request the Association to enter into a Special Commitment" is deleted.

5. The section originally numbered as Section 2.05, Designated Accounts is deleted in its entirety, and the subsequent Sections in Article II are renumbered accordingly.

6. Paragraph (a) of Section 2.03 (originally numbered as Section 2.05), Eligible Expenditures (renamed "Program Expenditures" in accordance with paragraph 1 of this Section II), is modified to read: "(a) the payment is for the financing of the reasonable cost of expenditures required for the Program and to be financed out of the proceeds of the Financing in accordance with the provisions of the Legal Agreements;".

7. The last sentence of Section 2.04 (originally numbered as Section 2.06), Financing Taxes, is modified to read: "To that end, if the Association at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the Association may, by notice to the Recipient, exclude such amount or such Tax from the Program Expenditures to be financed out of the proceeds of the Financing, as required to ensure consistency with such policy of the Association."

8. Section 2.06 (originally numbered as Section 2.08), Reallocation, is modified to read: "Notwithstanding any allocation of an amount of the Financing to a withdrawal category under the Financing Agreement, the Association may, by notice to the Recipient, reallocate any other amount of the Financing to such category if the Association reasonably determines at any time that such reallocation is appropriate for the purposes of the Program.

9. Section 6.01, Cancellation by the Recipient, is modified to read: "The Recipient may, by notice to the Association, cancel any amount of the Unwithdrawn Financing Balance."

10. Paragraph (d) of Section 6.03, Cancellation by the Association, entitled "Misprocurement", is deleted, and subsequent paragraphs are relettered accordingly.

11. Section 6.04, Amounts Subject to Special Commitment not Affected by Cancellation or Suspension by the Association, is deleted in its entirety, and subsequent Sections in Article VI and references to such Sections are renumbered accordingly.
12. In the Appendix, Definitions, all references to Section numbers are modified, as necessary, to reflect the modifications set forth above. In addition, the definition of the term "Special Commitment" is deleted in its entirety, and all subsequent paragraphs are renumbered accordingly.