

CONFORMED COPY

**CREDIT NUMBER 3901 ET
GRANT NUMBER H085 ET**

Development Financing Agreement

Water Supply and Sanitation Project

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated August 23, 2004

CREDIT NUMBER 3901 ET
GRANT NUMBER H085 ET

DEVELOPMENT FINANCING AGREEMENT

AGREEMENT, dated August 23, 2004, between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter from the Borrower, dated April 12, 2004, describing a program designed to promote an efficient, equitable and optimum utilization of its available water resources to ensure socio-economic development on a sustainable basis (the Program), and declaring the Borrower's commitment to the execution of such program; and

(B) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(C) the Borrower and the Association intend, to the extent practicable, that the proceeds of the Grant be disbursed on account of expenditures in respect of the Project before disbursements of the proceeds of the Credit are made; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit and the Grant to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions and in the Preamble to this Agreement have the respective meanings therein set forth and the following additional terms have the following meanings:

(a) “Beneficiary Community” means a group of people living inside the territory of the Borrower and sharing a common lineage or aim and to which a Community Grant under Part A (2) of the Project is made, or proposed to be made;

(b) “Beneficiary Town” means a community of at least 2000 inhabitants living inside the territory of the Borrower and sharing a common lineage or aim and to which a Town Grant (as hereinafter defined) is made out of proceeds of the Financing;

(c) “Beneficiary *Woreda*” means an administrative area and local government within the Borrower’s territory established and operating pursuant to the relevant Regional Constitutions, and to which a *Woreda* Grant (as hereinafter defined) is made or proposed to be made under Part A(1) of the Project;

(d) “*Birr*” means the currency of the Borrower;

(e) “Community Grant” means a grant made or proposed to be made to a Beneficiary Community under Part A (2) of the Project;

(f) “Community Grant Agreement” means the Agreement to be entered into between a Beneficiary Community and a *Woreda* (as hereinafter defined) for the purpose of financing a Community Subproject (as hereinafter defined) for the carrying out of specific activities in capacity building, planning, construction and management of facilities;

(g) “Community Subproject” means a two phase program of: (i) specific activities in capacity building and planning followed by: (ii) the implementation of water supply and sanitation construction, operation and management activities to benefit a Beneficiary Community utilizing the proceeds of a Community Grant made under Part A (2) of the Project;

(h) “Community, Water, Sanitation and Hygiene Committee” means a committee established by a Beneficiary Community under phase 1 of a Community Subproject and which thereafter is made responsible of the implementation of a Community Grant to benefit such Beneficiary Community;

(i) “ESMF” means the environmental and social management framework prepared by the Borrower for the purpose of implementing the Project, and disclosed to the public;

(j) “Financial Monitoring Report” or “FMR” mean each report prepared in accordance with Section 4.02 of this Agreement;

(k) “Fiscal Year” and “FY” mean the Borrower's fiscal year beginning July 8 and ending July 7 of the next calendar year;

(l) “Grant” means any or all the Community Grants, the Woreda Grants and the Town Grants under parts A and B (2) (a) of the Project;

(m) “Grant Agreement” means any and all the Community Grant Agreements, the *Woreda* Grant Agreements and the Town Grant Agreements under parts A and B (2) (a) of the Project;

(n) “MoFED” means the Borrower’s Ministry of Finance and Economic Development;

(o) “MOU” means a memorandum of understanding to be entered into between MWR and a Region (both as hereinafter defined) for the purpose of financing a Community Subproject, a *Woreda* Subproject and a Town Subproject under Parts A and B (2) (a) of the Project;

(p) “MWR” means the Borrower’s Ministry of Water Resources;

(q) “NBE” means the National Bank of Ethiopia, the Borrower’s central bank;

(r) “Proclamation, Regulation, Directive” mean laws of the Borrower enacted by the federal or regional parliaments, or the executive branch of the Borrower’s Government, pursuant to the Borrower’s Constitution;

(s) “Project Account” means the account referred to in Section 3.04 of this Agreement;

(t) “Project Coordination Unit” and “PCU” mean the unit established for the coordination of activities to be carried out under the Project, as referred to in Section 6.01 (e) of this Agreement;

(u) “Project Implementation Manual” means the manual referred to in Section 6.01 (c) of this Agreement consisting of different modules setting out respectively, *inter alia*, the administrative, financial and accounting procedures; the procurement and disbursement procedures; eligibility criteria for: (i) Beneficiary *Woredas*; Beneficiary Communities; Beneficiary Towns and their established Town Water Boards or Town Water Committees; utility operators; local service providers; and practitioner specialist groups; (ii) Community Subprojects, *Woreda* Subprojects, Town Subprojects and Subloans, including the environmental, the resettlement and the cultural property arrangements in respect thereof as set forth in the ESMF and RPF prepared for the Project; and (iii) the terms and conditions for related grant agreements and financing agreements, including procurement and accounting procedures; performance indicators to be used for the Project, and other activities and arrangements to be used for the purpose of implementing the Project, to be adopted by the Borrower not later than the Effective Date, as the same may be amended from time to time, and such term to include Region specific

schedules to the Project Implementation Manual that will be prepared by the Regions after Effectiveness;

(v) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to the letter agreement signed on behalf of the Association on April 6, 2004 and on behalf of the Borrower on April 22, 2004;

(w) "Region" means either an administrative area or city administration within the Borrower's territory as defined under the Borrower's Constitution, or the local government within said Region;

(x) "Regional Water Resources Development Bureau" means an entity responsible under the Project at regional level for: (i) providing technical assistance to, and monitoring and evaluation of, Beneficiary Woredas; Beneficiary Communities; Beneficiary Towns and their established Town Water Boards and Town Water Committees; and (ii) overall coordination of Project activities;

(y) "Regional Project Account" means the account referred to in Section 7 of Schedule 5 to this Agreement;

(z) "RPF" means the Resettlement Policy Framework, prepared by the Borrower for the purpose of implementing the Project, and disclosed to the public;

(aa) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(bb) "Subloan" means a loan made or proposed to be made, out of proceeds of the Financing, to a Beneficiary Town through its Town Water Board or Town Water Committee under Part B (2) (b) of the Project;

(cc) "Subloan Agreement" means the Agreement to be entered into between MWR and a Beneficiary Town for the purpose of financing a Town Subproject under part B (2) (b) of the Project;

(dd) "Subproject" means any and all the Community Subprojects, the *Woreda* Subprojects and the Town Subprojects under parts A and B of the Project;

(ee) "Subsidiary Agreement" means the agreement to be entered into between MoFED and MWR, as referred to in Section 6.01 (f) of this Agreement;

(ff) “Town Grant” means a grant made or proposed to be made to a Beneficiary Town through its Town Water Board or Town Water Committee (both as hereinafter defined), under Part B (2) (a) of the Project;

(gg) “Town Grant Agreement” means the Agreement to be entered into between a Town Water Board or a Town Water Committee acting for a Beneficiary Town, and a Regional Water Resources Development Bureau for the purpose of financing a Town Subproject under part B (2) (a) of the Project;

(hh) “Town Subproject” means a three-phase program of specific activities in: (i) capacity building and planning, followed by: (ii) construction, operation and management of water supply and sanitation facilities developed and implemented by a Town Water Board, to benefit a Beneficiary Town, utilizing the proceeds of either: (a) a Town Grant made under Part B (2) (a) of the Project; or (b) a Subloan, made under Part B (2) (b) of the Project;

(ii) “Town Water Board” and “Town Water Committee” mean autonomous legal entities to be established by Beneficiary Towns under phase 1 of a Town Subproject, to be made thereafter responsible under the Project for planning and managing implementation of water supply systems and to which a Town Grant or a Subloan to benefit a Beneficiary Town, is subsequently made or proposed to be made, utilizing the proceeds of the Financing, under Part B (2) (a) or B (2) (b) of the Project;

(jj) “Water Resources Development Fund” and “WRDF” mean an entity established by Proclamation No. 268/2002 of the Borrower, dated January 31, 2002, which is responsible under the Project for appraising and determining the eligibility of Town Subprojects to receive Subloans from MWR;

(kk) “Woreda” means an administrative area within the Borrower’s territory or the local government within said area, as defined under the Borrower’s Constitution;

(ll) “Woreda Grant” means a grant made or proposed to be made to a Beneficiary *Woreda* under Part A (1) of the Project;

(mm) “Woreda Grant Agreement” means the Agreement to be entered into between a Regional Water Resources Development Bureau (as hereinafter defined) and a *Woreda* for the purpose of financing a *Woreda* Subproject; and

(nn) “Woreda Subproject” means a two-phase program of specific activities in capacity building, program development, and implementation intended for a Beneficiary *Woreda* utilizing the proceeds of a *Woreda* Grant made under Part A (1) of the Project.

ARTICLE II

The Financing

Section 2.01. The Association agrees to make available to the Borrower, on the terms and conditions set forth or referred to in this Agreement:

(a) an amount in various currencies equivalent to fifty one million one hundred thousand Special Drawing Rights (SDR 51,100,000) (the Credit); and

(b) an amount in various currencies equivalent to seventeen million Special Drawing Rights (SDR 17,000,000) (the Grant).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account and the amount of the Grant may be withdrawn from the Grant Account, in each case in accordance with the provisions of Schedule 1 to this Agreement for: (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Financing; and (ii) amounts paid (or, if the Association shall so agree, to be paid) by MWR on account of withdrawals made for the benefit of a Beneficiary *Woreda*, a Beneficiary Community and a Beneficiary Town or its established Town Water Board or Town Water Committee under a *Woreda* Grant, a Community Grant and a Town Grant respectively, to meet the reasonable cost of goods, works and services required for the carrying out of a *Woreda* Subproject, a Community Subproject and a Town Subproject, to be financed under Parts A (1), A (2), B (2) (a), and B (2) (b) respectively, of the Project, and in respect of which the withdrawal from the Credit Account and the Grant account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in the National Bank of Ethiopia: (i) a special deposit account (the Special Account) in the name of MWR; and (ii) 90-day Advance Accounts in each of the participating regions (the Regional Accounts), all in commercial banks and on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account and each respective Regional Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be canceled.

Section 2.03. The Closing Date shall be March 31, 2010 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association: (i) a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum; and (ii) a commitment charge on the principal amount of the Grant not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, such rate not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) Each commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or the Grant Account (as the case may be), or canceled; and (ii) at the respective rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The respective rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) Each commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

Section 2.06. Commitment charges and service charges shall be payable semiannually on April 15 and October 15 in each year.

Section 2.07 (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 15 and October 15 commencing October 15, 2014, and ending April 15, 2044. Each installment to and including the installment payable on April 15, 2024 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Association shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment of the Credit to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MWR with due diligence and efficiency and in conformity with appropriate public utility and administrative practices, and with due regard for environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

(b) Without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit and the Grant shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the continued achievement of the Project's objectives; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

Section 3.04. (a) The Borrower shall open and maintain, for the duration of the Project, an account (the Project Account) in *Birr* in NBE on terms and conditions satisfactory to the Association;

(b) promptly thereafter, make an initial deposit into the Project Account, of an amount equivalent to *Birr* 80,000 to finance the Borrower's contribution to the Project;

(c) thereafter, deposit into the Project Account by September 30 in each Fiscal Year such amounts as shall be required to ensure the Borrower's contribution to the carrying out of MWR's planned activities for that FY; and

(d) ensure that amounts deposited into the Project Account shall be used exclusively to make payments to meet expenditures made or to be made in respect of the reasonable cost of goods, works and services for the Project in addition to those financed from the proceeds of the Credit and the Grant.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall establish and thereafter maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards, acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project

(b) The Borrower shall:

- (i) commencing with the fiscal year in which the Effective Date falls, to and including the fiscal year in which the last withdrawal from the Credit Account and the Grant Account is made, have the financial statements referred to in paragraph (a) of this Section for each fiscal year or other period agreed to by the Association, audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year or such other period agreed to by the Association, (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year, or such other period agreed to by the Association, as so audited, and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account and the Grant Account were made on the basis of reports referred to in Part (6) of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Borrower shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the fiscal year in which the last withdrawal from the Credit Account and Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditures are included in the audit for each fiscal year or other period agreed to by the Association, referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations set out in Schedule 4, paragraph (5) to this Agreement, the Borrower shall prepare and furnish to

the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Financing, and explains variances between the actual and planned uses of such funds;
- (ii) 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
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first Financial Monitoring Report shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each Financial Monitoring Report shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (1) of the General Conditions, the following additional event is specified, namely, that a situation shall have arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Financing Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Borrower has established the accounting and financial management system for the Project referred to in Section 4.01 of this Agreement, satisfactory to the Association;

(b) the Borrower has opened the Project Account pursuant to Section 3.04 (a) of this Agreement and has deposited therein the initial deposit referred to in Section 3.04 (b) of this Agreement;

(c) the Borrower has adopted the Project Implementation Manual in form and substance satisfactory to the Association;

(d) the Borrower has completed the work program, including the budget and the procurement plan for the first year of Project implementation, satisfactory in form and substance to the Association;

(e) the Borrower has assigned to PCU a Project Coordinator and specialists in financial management, procurement, urban water supply and sanitation, rural water supply and sanitation and monitoring and evaluation, all having experience and qualifications satisfactory to the Association; and

(f) MOFED and MWR have entered into a Subsidiary Agreement for the purpose of Project implementation, in form and substance satisfactory to the Association, and such Subsidiary Agreement has become effective.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Borrower; Addresses

Section 7.01. The Minister of Finance and Economic Development of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

Minister of Finance and Economic Development
Ministry of Finance and Economic Development
P.O. Box 1905
Addis Ababa,
Federal Democratic Republic of Ethiopia

Telex:

21147

For the Association:

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

Cable address:

INDEVAS
Washington, D.C.

Telex:

248423 (MCI) or
64145 (MCI)

Facsimile:

(202) 477-6391

IN WITNESS WHEREOF, the Parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Addis Ababa, Federal Democratic Republic of Ethiopia, as of the day and year first written above.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Ato Sufian Ahmed
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Ishac Diwan
Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Financing

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Financing, the allocation of the amounts of the Credit and the amounts of the Grant to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works	10,800,000	3,600,000	100% of foreign expenditures and 85% of local expenditures
(2) Goods	6,500,000	2,200,000	100% of foreign expenditures and 85% of local expenditures
(3) Consultant services	1,500,000	500,000	100% of foreign expenditures and 85% of local expenditures
(4) Training	2,100,000	700,000	100%
(5) Grants	22,290,000	7,500,000	85 % of amounts disbursed
(6) Subloans	6,300,000	2,100,000	85 % of amounts disbursed
(7) Operating costs	200,000	70,000	85 %
(8) Refunding of Project Preparation	410,000		Amount due pursuant to Section 2.02 (c) of Advance this Agreement
(9) Unallocated	1,000,000	330,000	
TOTAL	<u>51,100,000</u>	<u>17,000,000</u>	

2. For the purposes of this Schedule:

(a) the term “foreign expenditures” means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term “operating costs” means the incremental expenses incurred on account of Project implementation, including audits, office equipment and supplies, vehicle operation and maintenance, communication and insurance costs, office administration costs, utilities, travel, per diem and supervision costs, salaries of locally contracted employees, but excluding salaries of officials of the Borrower's civil service.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of:

(a) payments made for expenditures prior to the date of this Agreement;

(b) category (5), unless: (i) a Community Grant Agreement has been entered into between a *Woreda* and a Beneficiary Community; (ii) a *Woreda* Grant Agreement has been entered into between a *Woreda* and a Regional Water Resources Development Bureau; and (iii) a Town Grant Agreement has been entered into between a Regional Water Resources Development Bureau and a Town Water Board or a Town Water Committee on behalf of a Beneficiary Town, all in accordance with the procedures and the terms and conditions referred to in Schedule 4 to this Agreement, including all environmental mitigation measures and resettlement procedures in respect thereof set forth in detail in the Project Implementation Manual, the ESMF and the RPF, as shall be evidenced by the first such Community Grant Agreement, *Woreda* Grant Agreement and Town Grant Agreement for each Region furnished to the Association for its prior approval; and

(c) category (6), unless a Subloan Agreement has been entered into between MWR and a Beneficiary Town, in accordance with the procedures and the terms and conditions referred to in Schedule 4 to this Agreement, including all environmental mitigation measures and resettlement procedures in respect thereof set forth in detail in the Project Implementation Manual, the ESMF and the RFP, as shall be evidenced by the Subloan Agreements furnished to the Association for its prior approval.

4. The Association may require withdrawals from the Credit Account and the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$150,000 equivalent per contract; (b) works costing less than \$500,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000

equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) Woreda Grants costing less than \$50,000 equivalent per grant, Community Grants costing less than \$100,000 equivalent per grant and Town Grants costing less than \$500,000 equivalent per grant; (f) Subloans costing less than \$500,000 equivalent per Subloan; (g) training; and (h) operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

5. If the Association shall have determined at any time that any amount of the Grant was used in a manner inconsistent with the provisions of this Agreement, the Borrower shall, promptly upon notice from the Association, refund to the Association for deposit into the Grant Account, an amount equivalent to the amount so used.

6. The Borrower may request withdrawals from the Credit Account and the Grant Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Borrower (Report-based Disbursements). In case of the first such request submitted to the Association before any withdrawal has been made from the Credit Account and the Grant Account, the Borrower shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request. Upon receipt of each application for withdrawal of an amount of the Credit Account and the Grant Account on the basis of reports, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and the Grant Account and deposit into the Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in this paragraph, applicable to such withdrawal application, is required to be deposited in order to finance eligible expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to assist the Borrower in increasing access to sustainable water supply and sanitation services for rural and urban users through improved capacity in the sector.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Rural Water Supply and Sanitation

Support to the decentralization of rural water supply and sanitation service provision through the building of capacity:

1. in *woredas* to: (a) effectively plan, and thereafter; (b) manage and implement their rural water supply and sanitation programs by acquiring goods, carrying out civil works and providing technical advisory services in relation thereto, through two-phased *Woreda* Grants.
2. in communities to: (a) establish their Community Water, Sanitation and Hygiene Committees, plan their water supply facilities, promote sanitation and hygiene and thereafter; (b) manage and implement such plans, by acquiring goods, carrying out civil works and providing technical advisory services in relation thereto, through two-phased Community Grants;
3. (a) for regionally-based consultants, to assist *woredas* to prepare and implement their *woreda* water supply and sanitation programs; and (b) for local service providers to assist communities with community development, including preparing facilities and management plans and implementing them.

Part B: Urban Water Supply and Sanitation

Support to the decentralization of urban water supply and sanitation service through the building of capacity of:

1. (a) utility operators in, *inter alia*, system maintenance, financial and customer management; and (b) local consultants in design and construction supervision of town water supply facilities, and technical and financial management.
2. towns, through the provision of: (a) three-phased Town Grants; and (b) Subloans, for the carrying out of:
 - (i) technical assessments of water supply and sanitation systems;
 - (ii) establishment of autonomous Town Water Boards;

- (iii) the planning of business strategies and the preparation of business plans and facilities designs; the design and establishment of management systems; the strengthening of their technical, customer, and financial management capacity and performance, and; the monitoring of the performance of utility operators; and
- (iv) the implementation of such plans, including the acquisition of goods, the construction of facilities, and the carrying out of activities in connection with their supervision.

Part C: Supporting Implementation of Borrower's Program

Supporting MWR, WRDF and the Regional Water Resources Development Bureaus to carry out an efficient monitoring and coordination of water resources activities under the Program through:

1. (a) the building of capacity of Regional Water Resources Development Bureaus' personnel and regionally-based consultants, including practitioner specialist groups; and (b) the establishment of systems to provide ongoing assistance to towns, *woredas* and communities; and
2. the building of capacity of MWR to, *inter alia*: (a) manage and monitor the Program; (b) develop information and communication technology-based activities in order to increase networking capabilities; (c) carry out applied research in the sector; (d) improve water quality testing; (e) support vocational training; and (f) refine strategies and implementation arrangements for the Project and the Program.

* * *

The Project is expected to be completed by September 30, 2009.

SCHEDULE 3

Procurement

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods and works to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B:

(a) Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$150,000 equivalent or more each.

(b) Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods and works estimated to cost respectively less than \$150,000 and \$500,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods and works estimated to cost less than \$50,000 equivalent per contract, may be procured under contracts awarded on the basis of: (i) national shopping procedures; or (ii) international shopping procedures, depending on local availability of such goods and works, in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Works to be carried out in respect of spring development, hand-dug wells and small rural pipe systems, to be procured in selected rural areas of the Borrower's territory and costing less than \$50,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Community Participation

Goods and works required for Part A (2) of the Project shall be procured in accordance with procedures acceptable to the Association.

5. Procurement of Small Works

Works estimated to cost less than \$50,000 equivalent per contract, may be procured under lump-sum, fixed-price contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for: (i) works estimated to cost the equivalent of \$500,000 or more, (ii) goods, estimated to cost the equivalent of \$250,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to the first contract in each Region for works procured under direct contracting the following procedures shall apply:

- (i) prior to the execution of any contract procured under direct contracting, the Borrower shall provide to the Association a copy of the specifications and the draft contract; and
- (ii) the procedures set forth in paragraphs 2 (f), 2 (g) and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$200,000 equivalent per contract, may

comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Quality-based Selection

Services under the Project estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 through 3.4 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7, and 3.14 of the Consultant Guidelines.

3. Single Source Selection

(a) Services for (i) simple tasks which are estimated to cost less than \$100,000 equivalent per contract; (ii) capacity building of WRDF, which are estimated to cost \$100,000 or more.

4. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines: (i) shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines; and (ii) may be selected on a sole-source basis in accordance with the provisions of paragraphs 5.3 and 5.4 of the Consultant Guidelines, subject to prior approval of the Association.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Selection of all consultants' services shall be undertaken in accordance with such selection plan (as updated from time to time) as shall have been approved by the Association.

2. Prior Review

(a) With respect to: (i) each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more; (ii) all terms of reference regarding contracts for services of consultants to be employed by MWR and WRDF; and (iii) the first standardized terms of reference established in respect of Project implementation, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more: (i) the report on the comparison of the qualifications and experience of candidates; and (ii) the qualifications, experience terms of reference and terms of employment of the consultants, shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

Institutional Arrangements

1. The Borrower shall maintain at all times during Project implementation:
 - (a) MWR, responsible for: (i) the implementation of Part C (2) of the Project; and (ii) the overall coordination of Project activities, including centralized financial management and reporting in respect thereof and facilitation of capacity building activities;
 - (b) The Water Resources Development Fund responsible for appraising eligibility of the Town Subprojects to receiving Subloans from MWR under Part B (2) (b) of the Project and monitoring their implementation;
 - (c) Regional Water Resources Development Bureaus, responsible at regional level for: (i) the implementation of Part C (1) of the Project; (ii) Program planning, management and overall coordination of Parts A, B (1) and B (2) (a) of the Project; and (ii) appraising *Woreda* Subprojects and Town Subprojects under Parts A (1) and B (2) (a) of the Project;
 - (d) *Woredas* responsible for planning, managing and implementing their own water supply and sanitation programs, including financial and procurement management and monitoring and evaluation in respect thereof;
 - (e) The Community Water, Sanitation and Hygiene Committees responsible for planning, managing and implementing their own Subprojects under Part A (1) of the Project;
 - (f) Town Water Boards and Town Water Committees, responsible for planning, managing and implementing their own water supply and sanitation Subprojects, including financial and procurement management and monitoring and evaluation in respect thereof under Part B (2) (a) and B (2) (b) of the Project, and
 - (g) PCU responsible for coordinating Project implementation and with personnel having functions, experience and qualifications satisfactory to the Association.
2. The Borrower shall: (i) maintain the Project Implementation Manual and all Region specific Schedules thereto for the implementation of all components of the Project; (ii) take all measures necessary to ensure that the Project is carried out in conformity with the Project Implementation Manual; and (iii) not amend or waive any provision thereof which in the opinion of the Association may materially and adversely affect the implementation of the Project.

Execution covenants

Eligibility criteria for Woreda Subprojects, Community Subprojects, and Town Subprojects

3. Without limitation to the provisions of paragraph 2 of this Schedule, no Subproject for the carrying out of Parts A (1), A (2) and B (2) of the Project shall be eligible for financing out of the proceeds of the Credit and the Grant unless: (a) a Regional Water Resources Development Bureau for Part A (1) and B (2) (a) of the Project; (b) a *Woreda* for Part A (2) of the Project; and (c) the Water Resources Development Fund for Part B (2) (b) of the Project, shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Project Implementation Manual, that the Subproject concerned satisfies the eligibility criteria specified in the Project Implementation Manual, which shall include the following:

- (a) the Subproject shall be for: (i) the provision of training and capacity building activities in planning and management and monitoring of water supply and sanitation schemes, including the establishment of Water and Sanitation Committees and Town Water Boards; and (ii) the implementation of ensuing plans, including the acquisition of goods, the carrying out of civil works and the provision of technical advisory services in relation thereto;
- (b) except as the Association shall otherwise agree:
 - (i) the Beneficiary Communities and Woredas, shall provide not less than 10% of the estimated capital costs of the water supply and sanitation facilities included in the Community Subproject, of which not less than 5% mandatorily, shall be in the form of cash, and the rest in the form of materials, labor or other services; and
 - (ii) the Beneficiary Towns and their established Town Water Boards or Town Water Committees shall provide not less than 5% mandatorily in the form of cash of the estimated capital costs of the water supply facilities included in the Town Subproject, under a Town Grant Agreement, and a Subloan Agreement;
- (c) each Subproject shall be prepared in accordance with the procedures set forth in the ESMF and shall be designed, executed and carried out in full compliance with the standards set forth in the ESMF, RPF and laws of the Borrower relating to safety and environmental protection; and
- (d) the acquisition of land or other assets for the implementation of any Subproject and the determination and payment of compensation therefor, including the compensation for loss of income, shall be carried out in accordance with the principles and procedures set forth in the RPF.

Terms and conditions of Woreda Grant Agreements, Community Grant Agreements, Town Grant Agreements, and Subloan Agreements

4. (a) In financing the carrying out of: (i) a Community Subproject under Part A (2) of the Project, a *Woreda* shall enter into a Community Grant Agreement with a Beneficiary Community; (ii) a *Woreda* Subproject, a Regional Water Resources Development Bureau shall enter into a *Woreda* Grant Agreement with a Beneficiary *Woreda*; and (iii) a Town Subproject, a Regional Water Resources Development Bureau or MWR shall enter into a Town Grant Agreement or a Subloan Agreement, respectively, with a Beneficiary Town.

(b) The Community Grant Agreement, the *Woreda* Grant Agreement, the Town Grant Agreement and the Subloan Agreement shall set forth the respective obligations of the parties thereunder which are specified in the Project Implementation Manual, under terms and conditions which shall include the following:

- (i) financing for: (I) a *Woreda* Subproject, a Community Subproject and a Town Subproject shall be on a grant basis, not to exceed: (a) \$50,000 equivalent per *Woreda* Grant Agreement; (b) \$100,000 per Community Grant Agreement; and (c) \$2,000,000 per Town Grant Agreement; and (II) a Town Subproject, shall, in accordance with relevant detailed provisions set forth in the PIM , be made through a Subloan Agreement under which MWR shall relend parts of the proceeds of the Financing to the benefit of a Beneficiary Town, under terms and conditions which shall include:
 - (A) the payment of interest calculated at the rate of at least 1 % above the floor savings rate published by NBE, on the principal amount of the Subloan;
 - (B) a grace period not exceeding five years during which no interest is to be charged;
 - (C) a repayment period not exceeding twenty-five years; and otherwise
 - (D) under terms and conditions provided for utility financing in developing markets, and which shall have been approved by the Association.
- (ii) In order to qualify for a Subloan, the Town Water Board shall meet tests of creditworthiness, which shall include, *inter alia*:

- (A) systems and capacity for sound financial and operations management and performance reporting as evidenced by the report of an independent auditor;
 - (B) a business plan that demonstrates the ability to phase in full cost recovery tariffs with the supporting economic analysis confirming that customers will be willing and able to pay the required tariffs, and generate revenues sufficient to pay operating and maintenance expenses, renewal and replacement of assets, debt service and routine expansion of the system to meet demand;
 - (C) a performance agreement or contract between the Town Water Board and the utility operator, which sets forth performance targets and reporting requirements for monitoring and evaluation; and
 - (D) adequate arrangements to obtain external professional support for functions beyond the capacity of the operator.
- (iii) the requirement that the goods, works and services to be financed out of the proceeds of the *Woreda* Grant Agreement, the Community Grant Agreement, the Town Grant Agreement and the Subloan Agreement be procured and paid:
- (a) by *Woredas*, for the implementation of Part A (1) and A (2) of the Project; (b) by the Town Water Boards for the implementation of Part B (2) (a) and B (2) (b) of the Project; (c) by the Regional Water Resources Development Bureaus for Beneficiary *Woredas* Beneficiary Towns and Beneficiary Communities combined, for the implementation of Parts A and B (2) (a) of the Project; and (d); in conformity with the provisions set forth in Schedule 3 to this Agreement and that such goods, works and services shall be used exclusively in the carrying out of the relevant Subproject;
- (iv) the requirement that the proceeds of the *Woreda* Grant Agreement, the Community Grant Agreement, the Town Grant Agreement and the Subloan Agreement be used exclusively by the *woredas* for themselves, by the *woredas* for the Beneficiary Communities, and by Town Water Boards for Beneficiary Towns for the purposes specified in each Subproject;

- (v) the requirement that: (a) *Woredas* maintain for themselves, pursuant to *Woreda* Grant Agreements; (b) *Woredas* maintain for Beneficiary Communities, pursuant to Community Grant Agreements; and (c) Town Water Boards or Town Water Committees maintain for themselves on behalf of Beneficiary Towns, pursuant to Town Grant Agreements and Subloan Agreements, an accounting and financial management system, including records and separate accounts reflecting the operations, resources and expenditures related to the carrying out of each Subproject;
- (vi) the requirement that the Beneficiary Town through its established Town Water Board or Town Water Committee: (a) not assign, amend, abrogate or waive the Subloan Agreement or any provision thereof; and (b) maintain an accounting and financial management system, including records and separate accounts, in a format satisfactory to the relevant approving authorities, reflecting the operations, resources and expenditures related to the Subloan Agreement;
- (vii) the right of: (a) the Regional Water Resources Development Bureaus for Parts A and B (2) (a) of the Project; (b) *Woredas* for Part A (2) of the Project; and (c) WRDF for Part B (2) (b) of the Project, to inspect by themselves or jointly with the Association or MWR the services, goods, works and constructions financed under the relevant Subproject, the operation thereof and any record or relevant document; and
- (viii) the right of: (a) *Woredas* under Part A (2) of the Project; (b) Regional Water Resources Development Bureaus, on behalf of Beneficiary Towns and Beneficiary *Woredas* under parts A (1) and B (2) (a) of the Project, to suspend or terminate the right of Beneficiary *Woredas*, Beneficiary Communities and Beneficiary Towns to use the goods, works and services financed out of the proceeds of the Credit and the Grant upon failure by any such Beneficiary *Woreda*, Beneficiary Community and Town Water Board or Town Water Committee to perform any of their obligations under the *Woreda* Grant Agreement, the Community Grant Agreement and the Town Grant Agreement; and (c) MWR to premature, suspend or terminate the Subloan Agreement, and, thereafter to demand immediate repayment to a Town Water Board or a Town Water Committee upon the failure of such Town Water Board or Town Water Committee to perform any of their obligations under the Subloan Agreement.

Review of Project Implementation

5. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule (6) to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30 in each FY during Project implementation, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, on or about October 31 in each FY during Project implementation, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:
 - (a) the term “Eligible Categories” means Categories (1) through (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
 - (b) the term “Eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit and the Grant allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
 - (c) the term “Authorized Allocation” means an amount equivalent to \$10,000,000 to be withdrawn from the Credit Account and the Grant Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$6,000,000 until the aggregate amount of withdrawals from the Credit Account and the Grant Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR 10,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
 - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and the Grant Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
 - (b)
 - (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and the Grant Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account and the Grant Account under the respective eligible Categories and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account and any Regional Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account and the Grant Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account and any Regional Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account and the Grant Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account and the Grant Account of the remaining unwithdrawn amount of the Credit and the Grant allocated to the eligible Categories shall follow

such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account and any Regional Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account and any Regional Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account and any Regional Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account and any Regional Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account and the Grant Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

7. Regional Accounts:

(a) The Borrower shall cause MWR to withdraw from the Special Account and deposit into each Regional Account sufficient funds to facilitate implementation of the Project, provided that the Borrower shall at no time cause the amount held in any Regional Account to exceed the equivalent of *Birr* 10,000,000 each.

(b) Payments out of each Regional Account shall only be made for eligible expenditures in respect of Categories (1) through (7) set forth in the table in Schedule 1 to this Agreement.

(c) Any withdrawal from any Regional Account must be justified to the Borrower by the same documentation and other evidence regarding eligible expenditures provided for under paragraph 3 of this Schedule.

(d) If the Association or the Borrower shall have determined at any time that any amount outstanding on any Regional Account will not be required to cover further payments for eligible expenditures, the relevant Region shall, promptly upon notice from the Association or the Borrower, refund to the Special Account such outstanding amount.

SCHEDULE 6

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Section 1.01 is amended to read:

“Section 1.01. These General Conditions set forth certain terms and conditions generally applicable to development financing granted by the Association as a development credit and development grant to its members. They apply to any development financing agreement providing for any such development finance to the extent and subject to any modifications set forth in such agreement.

2. Paragraph 8 of Section 2.01 is amended to read as follows:

“8. “Development Financing Agreement” means the particular Development Financing Agreement to which these General Conditions apply, as such agreement may be amended from time to time .Development Financing Agreement includes these General Conditions as applied thereto, and all schedules and agreements supplemental to the Development Financing Agreement.”

3. The following new paragraphs are added to Section 2.01:

“15. “Grant” means the development grant provided for in the Development Financing Agreement.

16. “Grant Account” means the account opened by the Association on its books in the name of the Borrower to which the amount of the Grant is credited.

17. “Financing” means, collectively, the Credit and the Grant.

18. “Financing Accounts” means, collectively, the Credit Account and the Grant Account (or, where the context so requires, either of the Credit Account or the Grant Account).”

4. The term “Credit”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing”: Sections 2.01 (3), 2.01 (12), 4.01, Article V, Article VI (excluding Section 6.05), Section 7.01 (d), Article VIII, and Article IX.

5. The term “Credit Account”, wherever used in the following Articles and Sections of the General Conditions, is amended to read “Financing Accounts”: Section 2.01 (6), 4.01, Article V, Article VI, and Section 12.03.

6. The term “Development Credit Agreement”, wherever used in the General Conditions, is amended to read the “Development Financing Agreement”.

7. Section 3.01 is modified to read as follows:

“Section 3.01. *Financing Accounts.* The amount of the Credit shall be credited to the Credit Account and may be withdrawn from the Credit Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions. The amount of the Grant shall be credited to the Grant Account and may be withdrawn from the Grant Account by the Borrower as provided in the Development Financing Agreement and in these General Conditions.”

8. The phrase “(including any development financing agreement or development grant agreement)” is added to Section 6.02 (a) (ii) after the words “any development credit agreement” and before the words “between the Borrower and the Association”, to Section 6.02 (c) (i) after the words “any development credit agreement” and before the words “with the Association”, and to Section 7.01 (b) (i) after the words “any other development credit agreement” and before the words “between the Borrower and the Association”:

9. Section 6.05 is amended to read as follows:

“Section 6.05. Except as the Borrower and the Association shall otherwise agree, any cancellation of any amount of the Credit shall be applied *pro rata* to the several installments of the principal amount of the Credit maturing after the date of such cancellation.”

10. Paragraph (c) of Section 9.06 is modified to read as follows:

”(c) Not later than six months before the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, the Borrower shall prepare and furnish to the Association a report, of such scope and in such detail as the Association shall reasonably request, on the execution of the Project, its cost and the benefits derived and to be derived from it, the performance by the Borrower and the Association of their respective obligations under the Development Financing Agreement and the accomplishment of the purposes of the Financing.”

SCHEDULE 7

Performance Indicators

For purposes of this Agreement, the performance indicators to be used for Project implementation are as follows:

Development Objective:

1. Access to improved water supply provided to at least 2 million people in rural and urban project areas.

Part A – Rural Water Supply & Sanitation:

2. Effective woreda water and sanitation programs established through the project in at least 150 woredas.
3. 75% of participating Water and Sanitation Committees with facilities and management plans prepared, working according to bylaws.
4. 75% of water points constructed in participating communities functioning as designed.

Part B – Urban Water Supply & Sanitation

5. Autonomous Town Water Boards established and trained through the project in at least 30 town/urban areas.
6. 75% of town water systems expanded or rehabilitated in participating towns and cities, functioning properly.
7. 75% of participating water utilities with revenues covering operating and maintenance expense and renewal and replacement of short life assets.

Part C – Support to Borrower's Program:

8. At least 25 regionally-based consultants trained and contracted to support woreda and town water and sanitation programs.