Grant Agreement

(SUPPORT TO REACHING ALL CHILDREN WITH EDUCATION (RACE 2) PROGRAM)

between

LEBANESE REPUBLIC

and

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as Administrator of the Results in Education for All Children Trust Fund (REACH TF)

Dated 20 January, 2017
GRANT NUMBER TF0A3064

GRANT AGREEMENT

AGREEMENT dated 20 January, 2017, entered into between THE LEBANESE REPUBLIC ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION, acting as Administrator of the Results in Education for All Children Trust Fund (REACH TF) ("World Bank").

The Recipient and the World Bank hereby agree as follows:

Article I

Standard Conditions; Definitions

1.01. The Standard Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

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

ARTICLE II — GRANT

2.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to four million United States Dollars (US$4,000,000) ("Grant"), to assist in financing the program described in Schedule 1 to this Agreement ("Program").

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

2.03. The Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the donors to the trust fund. In accordance with Section 3.02 of the Standard Conditions, the World Bank’s payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the donors under the abovementioned trust fund.
ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the objectives of the Program. To this end, the Recipient shall carry out the Program through MEHE with support from CERD in accordance with the provisions of Article II of the Standard Conditions.

3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree to make changes to the Program, 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, unless the World Bank shall otherwise agree.

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely that the Recipient through MEHE has adopted a Program Operations Manual, in form and substance, satisfactory to the World Bank.

5.02. The Effectiveness Deadline is the date one hundred eighty (180) days after the date of this Agreement.

5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement shall terminate is the Closing Date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is the Minister of Finance.

6.02. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

Ministry of Finance
Riad El-Solh Square, Beirut
Lebanese Republic
Facsimile: +961 1 642 762

6.03. The Association's Address is:

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

Telex: Facsimile:
248423 (MCI) 1-202-477-6391

AGREED at Beirut, LEBANESE REPUBLIC, as of the day and year first above written.

LEBANESE REPUBLIC

By

Authorized Representative

Name: وزیر المالية
Title: علي حسن خليص

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as Administrator of the Results in Education for All Children Trust Fund (REACH TF)

By

Authorized Representative

Name: فیصل قبلا
Title:  \( \text{\underline{\text{س}}\text{م}} \)
SCHEDULE 1

Program Description

The objective of the Program is to promote equitable access to education services, enhance quality of student learning, and strengthen the education systems in the Recipient’s education sector in response to the protracted refugee crisis.

The Program is a part of and contributing to the financing of the second phase of the Recipient’s RACE Program (2016-2021), which will focus on formal education service provision, excluding the activities and expenditures as further detailed in the Program Operations Manual.

The Program, contributing to the Recipient’s RACE II Program (2016-2021), consists of the following activities:

Part 1. Increasing equitable access by Lebanese and non-Lebanese children to formal schooling in primary and secondary schools through supply-side activities, such as, school construction, expansion, and rehabilitation.

Part 2. Enhancing quality of education services through, inter alia, the provision of targeted support and tailored trainings to teachers; formative student assessments to identify struggling students; and outreach activities to communities and stakeholders.

Part 3. Strengthening the Recipient’s education systems at both the central and regional levels, through, inter alia, supporting data collection infrastructure to improve internet connectivity to all Participating Schools, providing related training on the data collection, entry and verification; increasing the numbers of staff handling accounting, procurement, Program planning and implementation; and developing a new national curriculum, including teacher guides and student learning materials, learning objectives for each grade, teacher performance standards; and a comprehensive learning assessment strategy.
SCHEDULE 2

Program Execution

Section I. Implementation Arrangements

A. Program Fiduciary, Environmental and Social Systems

Without limitation upon the provisions of Article II of the Standard 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 World Bank ("Program Fiduciary, Environmental and Social Systems") which are designed to ensure that:

1. the Grant 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 upon 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:

(a) Establish through MEHE, no later than one (1) month after the Effective Date and thereafter maintain throughout the implementation of the Program, a Steering Committee (SC) with composition, terms of reference and resources acceptable to the World Bank;

(b) maintain through MEHE throughout the implementation of the Program, a RACE Executive Committee (REC) to provide technical guidance and advice to MEHE; and

(c) maintain through MEHE throughout the implementation of the Program, the PMU with terms of reference, resources, and staff in adequate number
with qualifications and experience acceptable to the World Bank, to be responsible for day-to-day Program implementation coordination.

2. **Program Operations Manual**

(a) The Recipient shall through MEHE develop and adopt, in form and substance satisfactory to the World Bank, a Program Operations Manual containing detailed institutional, administrative, financial management, procurement, disbursement, technical, monitoring and evaluation arrangements, and operational guidelines and procedures for the implementation of the Program, including, *inter alia*:

(i) description of the investment and capacity building activities to be financed under the Program and the associated DLIs/RLRs;

(ii) 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 the achievement of DLRs for each FY;

(iii) a manual describing the intended purposes, eligibility criteria, and financial management and governance procedures for School Grants; and

(iv) social and environmental safeguards measures acceptable to the World Bank to mitigate any environmental and social impacts as a result of Program implementation.

(b) The Recipient shall thereafter ensure that the Program is carried out 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 World Bank. 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. **Additional Program Implementation Arrangements**

The Recipient shall through MEHE carry out the Program Action Plan in accordance with the schedule set out in the said Program Action Plan in a manner satisfactory to the World Bank.
D. Other Program Implementation Undertakings

The Recipient shall, through MEHE, not later than twelve (12) months from the Effective Date, engage a firm under the terms of reference acceptable to the World Bank to perform internal audit functions and provide training to MEHE’s staff in internal audits.

Section II. Excluded Activities

A. in the opinion of the World Bank, 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) consulting 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 2.06 of the Standard Conditions. Each Program Report shall cover the period of one calendar semester, and shall be furnished to the World Bank not later than one month after the end of the period covered by such report.

B. Program Financial Audits

Without limitation upon the generality of Section I.A of this Schedule 2 and Section 2.07 of the Standard Conditions, the Recipient shall have the Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Unless otherwise agreed by the World Bank, 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 World Bank not later than six (6) months after the end of such period and published at MEHE’s website.

C. Results Independent Verification

1. The Recipient shall, no later than three (3) months after the Effective Date, engage an Independent Verification Agent under terms of reference acceptable to the
World Bank, to prepare and provide verification reports certifying the achievement of DLRs.

2. Without limitation on the provisions of Part C.1 of this Section III, the Recipient shall, from time to time throughout the period of implementation of the Program:

(a) cause an Independent Verification Agent to carry out in accordance with the timetable and the verification protocol set out in the Program Operations Manual, an assessment covering DLRs requested by MEHE for verification to determine: (i) whether the DLRs as requested have been met or the extent that DLRs have been met; and (ii) the disbursement amount for said DLRs based on the calculation formula as stipulated in the disbursement table set out in Section IV below; and

(b) furnish said assessment after receiving the final verification reports from the Independent Verification Agent to the World Bank for its review and approval.

Section IV. Withdrawal of Grant Proceeds

A. General

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of Article III of the Standard Conditions, this Section, and such additional instructions as the World Bank may specify from time to time by notice to the Recipient to finance 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 Grant (including the Disbursement Linked Indicators as applicable) (“Category 3”), the Disbursement Linked Results for each Category (as applicable), and the allocation of the amounts of the Grant to each Category:
<table>
<thead>
<tr>
<th>Category (including Disbursement Linked Indicator as applicable)</th>
<th>Disbursement Linked Result (as applicable)</th>
<th>Amount of the Grant Allocated (expressed in US Dollars)</th>
<th>Disbursement Calculation Formula</th>
</tr>
</thead>
<tbody>
<tr>
<td>DLI #1: Number of school-aged (3-18) children enrolled in formal education in Participating Schools</td>
<td>500,000 children by completion of the Program</td>
<td>0</td>
<td>n/a</td>
</tr>
<tr>
<td>DLI #2: Proportion of students transitioning grades</td>
<td>DLR #2.1: 4 percentage points increase from the Baseline (to be determined in Year 1) in student transition rate of grade 4 transition to grade 5</td>
<td>0</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>DLR #2.2: 4 percentage points increase from the Baseline (to be determined in Year 1) in student transition rate of grade 7 transition to grade 8</td>
<td>0</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>DLR #2.3: 4 percentage points increase from the Baseline (to be determined in Year 1) in student transition rate of grade 10 transition to grade 11</td>
<td>0</td>
<td>n/a</td>
</tr>
<tr>
<td>DLI #3: Teacher performance measured and evaluated</td>
<td>DLR #3.1: first Impact Evaluation Study (IES) conducted and findings of the IES disseminated to relevant education sector policy makers</td>
<td>DLR #3.1: $4,000,000</td>
<td>n/a</td>
</tr>
<tr>
<td></td>
<td>DLR #3.2: second Impact Evaluation Study (IES) conducted and findings of the IES disseminated to relevant education sector policy makers</td>
<td>DLR #3.2: 0</td>
<td>n/a</td>
</tr>
<tr>
<td>DLI #4: Number of Participating Schools that implement Formative and Summative Assessments for students in Grade 3 in reading and math</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>---------------------------------------------------------------</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>( DLR #4.1: 50 ) in Year 2 ( )</td>
<td>0</td>
<td></td>
<td></td>
</tr>
<tr>
<td>( DLR #4.2: 180 ) in Year 4 ( )</td>
<td>0</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DLI #5: Proportion of Participating Schools with active Community Partnerships</th>
</tr>
</thead>
<tbody>
<tr>
<td>( DLR #5.1: 50% ) of Second-shift Schools with active Community Partnerships in Year 2</td>
</tr>
<tr>
<td>( DLR #5.2: 80% ) of Second-shift Schools with active Community Partnerships in Year 4</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DLI #6: Timely and robust data available for evidence informed policy making and planning</th>
</tr>
</thead>
<tbody>
<tr>
<td>( DLR #6.1: ) A data and information management framework developed and adopted by MEHE and CERD</td>
</tr>
<tr>
<td>( DLR #6.2: ) Annual data available from Participating Schools on disaggregated data on student enrollment by March 1 in each year; and annual data available from Participating Schools on disaggregated data on student grade passing rates by August 31 each year for current academic year.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>DLI #7: Curriculum revised to improve quality of learning</th>
</tr>
</thead>
<tbody>
<tr>
<td>( DLR #7.1: ) Curricula Higher Committee approved a work plan and standard operating procedures for developing the Curriculum</td>
</tr>
<tr>
<td>( DLR #7.2: ) Curriculum design completed</td>
</tr>
</tbody>
</table>
### DLR #7.3: Curriculum piloting

- Completed in 6 schools for each cycle

### DLR #8.1: MEHE and CERD

- Developed and endorsed new teacher performance standards, teacher performance observation tools and procedures to implement said standards and tools.

### DLR #8.2: CERD

- Developed and endorsed a framework for teacher professional development and performance management

### DLR #8.3: MEHE and CERD

- Designed a comprehensive learning assessment strategy

### DLR #8.4: MEHE and CERD

- Implemented the above-mentioned comprehensive learning assessment strategy

### DLI #8: Foundational Framework and Policies are developed and adopted to support teaching and learning

<table>
<thead>
<tr>
<th>DLI #8: Foundational Framework and Policies are developed and adopted to support teaching and learning</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>DLR #8.1: MEHE and CERD developed and endorsed new teacher performance standards, teacher performance observation tools and procedures to implement said standards and tools.</td>
<td>0</td>
</tr>
<tr>
<td>DLR #8.2: CERD developed and endorsed a framework for teacher professional development and performance management</td>
<td>0</td>
</tr>
<tr>
<td>DLR #8.3: MEHE and CERD designed a comprehensive learning assessment strategy</td>
<td>0</td>
</tr>
<tr>
<td>DLR #8.4: MEHE and CERD implemented the above-mentioned comprehensive learning assessment strategy</td>
<td>0</td>
</tr>
</tbody>
</table>

### DLI #9: MEHE and CERD’s improved capacity to plan and implement Program

<table>
<thead>
<tr>
<th>DLI #9: MEHE and CERD’s improved capacity to plan and implement Program</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>DLR #9: Four (4) annual internal audit reports produced per year by MEHE in compliance with standards agreed between MEHE and the Association</td>
<td>0</td>
</tr>
</tbody>
</table>

**TOTAL AMOUNT** 4,000,000

### 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 3.04 of the Standard Conditions (renumbered as such pursuant to paragraph 5 of Section II of the Appendix to this Agreement and relating to Program Expenditures), for DLRs achieved prior to the date of this Agreement, except that withdrawals up to an
aggregate amount not to exceed US$1,000,000 may be made for such DLRs achieved prior to this date but on or after March 31, 2016;

(b) for DLR 3, until and unless the Recipient has furnished evidence, verified according to protocols set forth in the Verification Protocol and thus satisfactory to the World Bank, that said DLR 3 has been achieved; and

2. Notwithstanding the provisions of Part B.1(b) of this Section, the Recipient may withdraw an amount not to exceed US$1,000,000 as an advance; provided, however, that if the DLRs in the opinion of the Association are not achieved (or only partially achieved) by the Closing Date, the Recipient shall refund such advance (or portion of such advance as determined by the World Bank to the World Bank promptly upon notice thereof by the Association. Except as otherwise agreed with the Recipient, the World Bank shall cancel the amount so refunded. Any further withdrawals requested as an advance under any Category shall be permitted only on such terms and conditions as the World Bank shall specify by notice to the Recipient.

3. Notwithstanding the provisions of Part B.1(c) of this Section, if any of the DLRs under Category 3 has not been achieved by the date by which the said DLR is set to be achieved, the Association may, by notice to the Recipient: (a) authorize the withdrawal of such lesser amount of the unwithdrawn proceeds of the Grant then allocated to said Category which, in the opinion of the World Bank, corresponds to the extent of achievement of said DLR, said lesser amount to be determined by the World Bank; (b) reallocate all or a portion of the proceeds of the Grant then allocated to said DLR to any other DLR; and/or (c) cancel all or a portion of the proceeds of the Grant then allocated to said DLR.

4. The Closing Date is October 31, 2019.

5. 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 World Bank that the Withdrawn Grant Balance does not exceed the total amount of Program Expenditures, the Recipient shall, promptly upon notice from the World Bank, refund to the World Bank such excess amount of the Withdrawn Grant Balance. The World Bank shall cancel the refunded amount of the Withdrawn Grant Balance.
APPENDIX

Section I. Definitions

1. "Academic Year" or "AY" means the school year of the Recipient which commences on September 1 and ends on June 30.


3. "Baseline" means the baseline information established and set out as a part of the Verification Protocol after the initial survey for measuring relevant DLRs.

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

5. "CERD" means the Center for Educational Research and Development, the Recipient’s governmental entity responsible for developing curriculum for the Recipient’s education sector.

6. "Curricula Higher Committee" means that committee nominated by the Minister of MEHE to guide the process of the Recipient’s curriculum reform.

7. "Curriculum" means a systematic packaging of competencies including knowledge, skills and attitudes that students should acquire through organized learning experiences both in formal and non-formal educational settings, including those for Grades 1-6, Grades 7-9, Grades 10-12, and kindergarten education.

8. "Community Partnership" means activities undertaken to create and strengthen linkages and communication among schools, parents, children, and other education stakeholders.

9. "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, as such DLI may be revised from time to time as agreed among the Association, MOF, and MEHE.

10. "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 Grant allocated to said result may be withdrawn in accordance with the provisions of said Section IV; as such DLR may be revised from time to time as agreed among the Association, MOF, and MEHE.
11. “Fiscal Year” or “FY” means the Fiscal Year of the Recipient which commences on January 1 and ends on December 31.

12. “Formative Summative Assessment” means a test or exercise to determine the existing skills or knowledge of a student, often prior to instruction in the tested subject area, in order to identify learning needs and/or adjust instruction and support needed by the student.

13. “Foundational Framework and Policies” means essential policies and procedures governing activities in classrooms and schools under the authority of MEHE to approve and enact.

14. “Independent Verification Agent” means an independent entity to be engaged by MEHE for the purposes of certifying the achievement of the DLRs as referred to in paragraph 1 of Section III.C of Schedule 2 to this Agreement.

15. “Impact Evaluation Study” means the evaluation studies of teacher performance, consisting of the following activities, inter alia: the classroom practices of at least 200 teachers are observed and evaluated; these teachers will then receive training in specific pedagogic, classroom management and/or subject areas identified during the observation as areas in which they would benefit from additional support; and following the training, these teachers will be observed at least one more time in their classrooms.


17. “MOF” means the Recipient’s Ministry of Finance, or any successor thereto.

18. “Participating Schools” means the schools selected, or to be selected by the Recipient according to the selection criteria set out in the Program Operations Manual to participate in the Program.

19. “PMU” means the Program management unit referred to in paragraph 1(c) of Section I.C of Schedule 2 to this Agreement.

20. “Program Action Plan” means the Recipient’s plan dated August 3, 2016 and referred to in paragraph 3 of Section I.C of Schedule 2 to this Agreement, as may be amended from time to time with the agreement of the Association.

21. “Program Fiduciary, Environmental and Social Systems” means the Recipient’s systems for the Program referred to in Section I.A of Schedule 2 to this Agreement.
22. "Program Operations Manual" means the manual, satisfactory to the World Bank, to be adopted by MEHE and referred to in paragraph 2 of Section I.C of Schedule 2 to this Agreement.

23. "RACE Executive Committee" means the committee referred to in paragraph 1(b) of Section I.C of Schedule 2 to this Agreement.

24. "RACE Program" means the Recipient's Reaching All Children with Education (RACE) Program, aiming to achieve equitable access by children and their caregivers to formal and on-formal schooling, enhance quality of education services and learning environment, and strengthen the governance and managerial capacities of the Recipient's relevant institutions.

25. "Results Independent Verification" means each assessment referred to in Section III.C of Schedule 2 to this Agreement.

26. "Second-shift Schools" means public schools that provide education services to students outside of the standard school day.

27. "Summative Assessment" means a test or exercise to determine what students have learned of a specific set of knowledge or skills at the end of an instructional period.


29. "Steering Committee" means the committee referred to in paragraph 1(a) of Section I.C of Schedule 2 to this Agreement.

30. "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.

31. "Year 1" means the first year of implementation of Program activities expected to take place in FY 2016/2017.

32. "Year 2" means the second year of implementation of Program activities, expected to take place in FY 2017/2018 in order to achieve the results shown in DLRs 4 and 5 set out in the disbursement table in Schedule 2 to this Agreement.

33. "Year 4" means the fourth year of implementation of Program activities, expected to take place in FY 2019/2020 in order to achieve the results shown in the DLRs 4 and 5 set out in the disbursement table in Schedule 2 to this Agreement.
Section II. Modifications to the Standard Conditions

The Standard Conditions are modified as follows:

1. Wherever used throughout the Standard Conditions, the term "the Project" is modified to read "the Program", the term "Project Report" is modified to read "Program Report", and the term "Eligible Expenditure" is modified to read "Program Expenditure".

2. Section 3.03, Special Commitment by the World Bank, is deleted in its entirety, and the subsequent Sections in Article III are renumbered accordingly.

3. In Section 3.03 (originally numbered as Section 3.04), the phrase "or to request the World Bank to enter into a Special Commitment" is deleted.

4. The section originally numbered as Section 3.05, Designated Accounts, is deleted in its entirety, and the subsequent Sections in Article III are renumbered accordingly.

5. Paragraph (a) of Section 3.04 (originally numbered as Section 3.06), Eligible Expenditures (renamed "Program Expenditures" in accordance with paragraph 1 of this Section II), is modified to read: "(a) the payment is for the reasonable cost of expenditures required for the Program and to be financed out of the proceeds of the Grant in accordance with the provisions of the Grant Agreement;".

6. Paragraph (a) of Section 3.05 (originally numbered as Section 3.07), Financing Taxes, is modified to read: "(a) The Grant Agreement may specify that the proceeds of the Grant may not be withdrawn to pay for Taxes levied by, or in the territory of, the Member Country on or in respect of Program Expenditures, or on their importation, manufacture, procurement or supply. In such case, if the amount of any such Taxes decreases or increases, the World Bank 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 Grant specified in the Grant Agreement, as required to ensure consistency with such limitation on withdrawals."

7. The last sentence of Section 3.05 (originally numbered as Section 3.07), Financing Taxes, is modified to read: "To that end, if the World Bank at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the World Bank 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 Grant specified in the Grant Agreement, as required to ensure consistency with such policy of the World Bank."

8. Section 3.06 (originally numbered as Section 3.08), Reallocation, is modified to read: "Notwithstanding any allocation of an amount of the Grant to a withdrawal
category under the Grant Agreement, the World Bank may, by notice to the
Recipient, reallocate any other amount of the Grant to such category if the World
Bank reasonably determines at any time that such reallocation is appropriate for
the purposes of the Program.”

9. Section 4.01, Cancellation by the Recipient, is modified to read: “The Recipient
may, by notice to the World Bank, cancel any unwithdrawn amount of the Grant.”

10. Paragraph (d) of Section 4.03, Cancellation by the World Bank, entitled
“Misprocurement”, is deleted, and subsequent paragraph (e) is re-lettered
accordingly.

11. Section 4.04, Amounts Subject to Special Commitment Unaffected, is deleted in its
entirety, and subsequent Sections in Article IV 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” set forth in paragraph 22 is deleted in its
entirety, and all subsequent paragraphs are renumbered accordingly.