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**GRANT NUMBER E279-3A**

# **Financing Agreement**

**(Regional Climate Resilience Program for Eastern and Southern Africa 2 Project)**

**between**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**and**

**AFRICAN UNION**

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**GRANT NUMBER E279-3A**

**FINANCING AGREEMENT**

AGREEMENT dated as of the Signature Date between INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) and AFRICAN UNION (“Recipient”).

WHEREAS:

- (A) Climate change poses a major threat to the achievement of the Eastern and Southern African (AFE) region’s long-term development objective.
- (B) There is huge potential for a regional approach to effectively address this shared challenge at scale via collective action, and to contribute to build AFE’s resilience to climate-related impacts.
- (C) The Regional Climate Resilience Program for Eastern and Southern Africa (“RCRP”) proposes a platform for coordinated action on the regional climate change challenge, for testing and expanding the use of standardized and replicable approaches on emerging good practices across countries and sectors and for mobilizing co-financing for this agenda.
- (D) Under the first project of the RCRP, the Association entered into Financing Agreements with the Union of the Comoros, the Republic of Madagascar, the Republic of Mozambique, the Republic of South Sudan, the Southern African Development Community, and the Eastern Nile Technical Regional Office, to assist in financing their respective part of the first RCRP project.
- (E) The RCRP is aligned with the Recipient’s Climate Change and Resilience Development Strategy and Action Plan (2022-2032).
- (F) The RCRP is also aligned with the strategy of the Republic of Malawi on climate change and would support the shift in the country’s disaster response approach to preparedness, risk reduction, and sustainable post disaster recovery.
- (G) The Recipient and the Republic of Malawi, having satisfied themselves as to the feasibility and priority of the Regional Project (“Regional Project”) described in Schedule 1 to this Agreement, have requested assistance from the Association in the financing of their respective part of the Regional Project.

NOW THEREFORE, the Association and the Recipient hereby agree as follows:

**ARTICLE I — GENERAL CONDITIONS; DEFINITIONS**

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

**ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient a grant, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to seven million and seven hundred thousand Special Drawing Rights (SDR 7,700,000) (“Financing”), to assist in financing the Recipient’s respective part of the Regional Project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Grant Balance.
- 2.04. The Payment Dates are February 15 and August 15 in each year.
- 2.05. The Payment Currency is Dollar.

**ARTICLE III — PROJECT**

- 3.01. The Recipient declares its commitment to the objective of the Project. To this end, the Recipient shall carry out the Project in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

**ARTICLE IV — REMEDIES OF THE ASSOCIATION**

- 4.01. The Additional Event of Suspension consists of the following, namely, the Constitutive Act of the African Union has, in the opinion of the Association, been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the Recipient to perform any of its obligations under this Agreement.

**ARTICLE V — EFFECTIVENESS; TERMINATION**

- 5.01. The Effectiveness Deadline is the date one hundred and twenty days (120) days after the Signature Date.
- 5.02. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

**ARTICLE VI — REPRESENTATIVE; ADDRESSES**

- 6.01. Except as provided in Section 2.02 of this Agreement, the Recipient's Representative is the Chairperson of the African Union Commission.
- 6.02. For purposes of Section 11.01 of the General Conditions:
  - (a) the Recipient's address is:  
African Union Headquarters  
Roosevelt Street W2 1K19  
P.O. Box 3243  
Addis Ababa  
Ethiopia; and
  - (b) the Recipient's Electronic Address is:  
Facsimile: +251 11 551 7844
- 6.03. For purposes of Section 11.01 of the General Conditions:
  - (a) the Association's Address is:  
  
International Development Association  
1818 H Street, N.W.  
Washington, D.C. 20433  
United States of America; and
  - (b) the Association's Electronic Address is:  
  
Telex: 248423 (MCI)                      Facsimile: 1-202-477-6391

AGREED as of the Signature Date.

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**By**

Boutheina Guermazi

**Authorized Representative**

**Name:** Boutheina Guermazi

**Title:** Director, Regional Integration

**Date:** 01-Mar-2024

**AFRICAN UNION**

**By**



**Authorized Representative**

**Name:** H.E. Amb. Josefa Leonel Correia Sacko

**Title:** Commissioner, ARBE

**Date:** 01-Mar-2024

## SCHEDULE 1

### Regional Project Description

The objective of the Regional Project is to improve resilience to water-related climate shocks in Malawi and in the Eastern and Southern Africa region.

The Regional Project consists of the following parts:

#### **Part 1: Risk Management and Climate Financing**

Supporting regional and national institutional capacity building in watershed and catchment management, and strengthening cooperation on climate and related disasters risk management and climate financing through:

*National level: Malawi*

##### 1.1. Consolidating and Implementing Basin Plans

Consolidating basin plans and instruments for catchment management, land and forest restoration plans, flood-risk mapping, and nature-based solutions; conducting feasibility studies of proposed interventions based on the consolidated plans to reduce soil erosion rates, improve crop productivity, boost water storage, and reduce vulnerability to flood damage on infrastructure; developing flood mapping and zoning to enhance resilience of beneficiaries and infrastructure; and supporting the engagement of Malawi in climate resilient transboundary water resources management and promoting gender balance in staffing at relevant authorities.

##### 1.2. Emergency Preparedness and Response and Early Warning Systems

Supporting the institutionalization of government-led emergency management and disaster response capacity at national, district, and local levels against climate change exacerbated floods and cyclones through:

- (a) developing and deploying a government-led Incident Command System at the National Emergency Operations Center for coordinated disaster response;
- (b) establishing disaster response coordination facilities at the district level, and providing equipment and training for local response teams and community volunteers in high-risk flood areas; and
- (c) providing core-network hydromet instrumentation and communication equipment for improved climate data collection and dissemination.

1.3. Strengthening Monitoring, Reporting, and Verification (MRV) Capacity to Facilitate Access to Climate Finance

Enhancing Malawi's national MRV unit, enabling tracking land-use change, forest degradation and deforestation, and associated carbon emissions, and creating the enabling environment to facilitate access to carbon market, and strengthening Malawi's capacity to monitor carbon stocks and measure the reduction resulting from its various mitigation activities, including natural resources management, landscape restoration, and land-use changes.

*Regional level: African Union*

1.4. Capacity Building to Enhance Hydromet Systems and Climate Finance

- (a) Developing regional hydromet diagnostic and roadmap for data collection and transmission to support the operationalization of the Africa Multi-hazard Early Warning and Early Action System (AMHEWAS) Program.
- (b) Carrying out a comprehensive study on raising climate finance in member states, trainings for decision-makers and technical experts on various thematic topics including hydromet, disasters risk management, and climate finance, and expanding the AU's secondment programs by bringing hydrologists, meteorologists, and disaster management experts to improve collaboration on water resources and disaster risk management.

**Part 2: Infrastructure Investments and Sustainable Asset Management for Climate Resilience**

*National level: Malawi*

2.1. Basin-Level Infrastructure Development

- (a) Supporting the reconstruction and rehabilitation of: (i) critical connectivity infrastructure, including roads and bridges; and (ii) hydraulic infrastructure impacted by Tropical Cyclone Freddy.
- (b) Supporting the construction or rehabilitation of hydraulic infrastructure in the transboundary SRB, including, *inter alia*, river training and riverbank protection structures, drainage systems, dykes, and weirs.

2.2. District-Led Resilience Building

Providing Performance-Based Grants (PBGs) to support district-level infrastructure, landscape management investments, and nature-based solutions.

*Regional level: African Union*

- 2.3. Capacity Building to Strengthen Flood and Drought Risk Vulnerability Analysis and Operation and Maintenance of Flood Protective Infrastructure
- (a) Carrying out a comprehensive study on water security in the continent, including an assessment of status and operation and maintenance of critical storage in collaboration with the operating entities.
  - (b) Supporting AU member states develop climate resilient water security programs to scale-up the AU Africa Water Investment Program.
  - (c) Developing and operationalizing a monitoring and reporting methodology for the implementation of the AU Climate Change and Resilient Development Strategy and Action Plan.

**Part 3: Adaptive Climate Services for Resilient Communities**

Enhancing community preparedness in urban areas and engaging in planning of community level risk reduction plans to mainstream climate dimensions in social protection policy design and operations through:

*National level: Malawi*

3.1. Expanding Social Registry in Urban Areas

Redesigning and rolling out an urban social registry, enhancing resilience of beneficiaries to floods, cyclones and droughts in selected cities, including the design of an urban Proxy Means Test (PMT) to be used as a prioritization criterion for *ex-post* household-focused interventions, preparation of *ex ante* emergency action plans, and development of prevention and adaptation strategies for climate change-exacerbated floods, droughts, and cyclones.

3.2. Design and Pilot Urban Climate Smart Public Works Program

Supporting central government units and urban councils in:

- (a) designing an urban public works program (UPWP) that combines aspects of climate smart operational maintenance of public infrastructure and land restoration activities across green spaces and urban watersheds, including maintenance of urban drainage canals, peri-urban water retention and urban open space rehabilitation activities, through, *inter alia*: (i) the development of UPWP design guidelines and operational manuals; and (ii) training of city councils and relevant community structures; and



- (b) piloting the UPWP in selected urban centers to live test the guidelines and operational manuals.

*Regional level: African Union*

3.3. Mainstreaming Climate Resilience in Social Protection and Empowering Communities

- (a) Carrying out a study on best practices of adaptive social protection programs in the region.
- (b) Developing of participatory and gender and youth inclusive guidelines for the development of community-level climate risk management plans and projects.
- (c) Providing training to member states to disseminate knowledge and share lessons learned.

**Part 4: Project Management**

Supporting project management and implementation activities including, *inter alia*, implementation supervision, management of procurement and financial management including carrying out of audits, management of environmental and social aspects, monitoring and evaluation and reporting activities, conducting an impact assessment at baseline, midterm, and completion, knowledge management and communication activities, and supporting the participation of Malawi and the AU in the RCRP RSC to increase coordination and learning across the region, all through the provision of consulting services, non-consulting services, Operating Costs and acquisition of goods for the purpose.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

1. The Recipient shall vest the Sustainable Development and Blue Economy Directorate with responsibility for leading implementation of the Project, with technical support from the Health, Humanitarian Affairs and Social Development Department. To this end, the Recipient shall:
  - (a) establish and thereafter maintain, at all times during the implementation of the Project, a Project Implementation Unit (“PIU”), under the Sustainable Development and Blue Economy Directorate, responsible for the management, coordination, supervision, and monitoring of all Project activities, with functions, staffing, and resources satisfactory to the Association; and
  - (b) recruit or designate a project coordinator, a training coordinator, and fiduciary and environmental and social staff to the PIU, with qualifications, experience, and terms of reference satisfactory to the Association and as described in the PIM.
2. The Recipient shall designate a representative to be a member of the Regional Steering Committee established for the Regional Project.

##### B. Project Implementation Manual

1. The Recipient shall:
  - (a) prepare and furnish to the Association for its review, a Project Implementation Manual (“PIM”), containing detailed arrangements and procedures for implementation of the Project, including, *inter alia*: (i) the respective roles and responsibilities of the Recipient’s centralized units involved in the implementation of the Project; (ii) disbursement and flow of funds arrangements; (iii) institutional arrangements; (iv) fiduciary arrangements, including financial management, procurement, and anti-corruption (including the Anti-Corruption Guidelines); (v) environment and social management systems; (vi) monitoring and evaluation, reporting and communication; and (vii) such other administrative, financial, technical and organizational arrangements, procedures and necessary terms of reference as shall be required for the Project;

- (b) not later than three (3) months after the Effective Date, adopt the PIM approved by the Association and, thereafter, implement the Project in accordance with the approved PIM; and
  - (c) not amend, abrogate, waive, or permit to be amended, abrogated, or waived, the PIM, or any provision thereof, without the prior written consent of the Association.
2. In the event of any conflict between the provisions of the PIM and those of this Agreement, the provisions of this Agreement shall prevail.

**C. Annual Work Plans and Budgets**

1. The Recipient shall:
- (a) prepare under terms of reference acceptable to the Association, and furnish to the Association, not later than October 30 of each Financial Year during the period of Project implementation (or for the first calendar year of Project implementation, no later than one (1) month after the Effective Date), for the Association's review and agreement, an annual work plan of activities proposed for inclusion in the Project during the following Financial Year, together with a budget and financing plan for such activities and a timetable for their implementation ("Annual Work Plan and Budget"); and
  - (b) thereafter, carry out the Project with due diligence during such following year in accordance with such Annual Work Plan and Budget as shall have been agreed with the Association, as such plan may be amended from time to time with the prior written agreement of the Association.
2. The Recipient shall ensure that only activities included in the Annual Work Plan and Budget shall be eligible for inclusion in the Project.

**D. Environmental and Social Standards**

1. The Recipient shall ensure that the Project is carried out in accordance with the Environmental and Social Standards, in a manner acceptable to the Association.
2. Without limitation upon paragraph 1 above, the Recipient shall ensure that the Project is implemented in accordance with the Environmental and Social Commitment Plan ("ESCP"), in a manner acceptable to the Association. To this end, the Recipient shall ensure that:
- (a) the measures and actions specified in the ESCP are implemented with due diligence and efficiency, as provided in the ESCP;

- (b) sufficient funds are available to cover the costs of implementing the ESCP;
  - (c) policies and procedures are maintained, and qualified and experienced staff in adequate numbers are retained to implement the ESCP, as provided in the ESCP; and
  - (d) the ESCP, or any provision thereof, is not amended, repealed, suspended or waived, except as the Association shall otherwise agree in writing, as specified in the ESCP, and ensure that the revised ESCP is disclosed promptly thereafter.
3. In case of any inconsistencies between the ESCP and the provisions of this Agreement, the provisions of this Agreement shall prevail.
4. The Recipient shall ensure that:
- (a) all measures necessary are taken to collect, compile, and furnish to the Association through regular reports, with the frequency specified in the ESCP, and promptly in a separate report or reports, if so requested by the Association, information on the status of compliance with the ESCP and the environmental and social instruments referred to therein, all such reports in form and substance acceptable to the Association, setting out, *inter alia*: (i) the status of implementation of the ESCP; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the ESCP; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and
  - (b) the Association is promptly notified of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant adverse effect on the environment, the affected communities, the public or workers in accordance with the ESCP, the environmental and social instruments referenced therein and the Environmental and Social Standards.
5. The Recipient shall establish, publicize, maintain and operate an accessible grievance mechanism, to receive and facilitate resolution of concerns and grievances of Project-affected people, and take all measures necessary and appropriate to resolve, or facilitate the resolution of, such concerns and grievances, in a manner acceptable to the Association.

**Section II. Project Monitoring, Reporting and Evaluation**

**A. Project Reports**

The Recipient shall furnish to the Association each Project Report not later than one (1) month after the end of each calendar semester, covering the calendar semester.

**B. Mid-Term Review**

1. No later than three (3) years after the Effective Date, the Recipient shall, in conjunction with the Association, carry out a mid-term review of the Project (the "Mid-Term Review"), covering the progress achieved in the implementation of the Project.
2. For the purpose of facilitating the Mid-Term Review, the Recipient shall prepare, under terms of reference satisfactory to the Association, and furnish to the Association not less than one (1) month prior to the beginning of the Mid-Term Review, a report integrating the results of the Project's monitoring and evaluation activities, on the progress achieved in the carrying out of the Project during the period preceding the date of such report, and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objective of the Project during the period following such date.
3. Following the Mid-Term Review, the Recipient shall act promptly and diligently in order to take, or cause to be taken, measures recommended to ensure the efficient completion of the Project and the achievement of its objective as well as any corrective action deemed necessary by the Association to remedy any shortcoming noted in the carrying out of the Project in furtherance of the objective of the Project.

**Section III. Withdrawal of the Proceeds of the Financing**

**A. General**

1. Without limitation upon the provisions of Article II of the General Conditions and in accordance with the Disbursement and Financial Information Letter, the Recipient may withdraw the proceeds of the Financing to finance Eligible Expenditures, in the amount allocated and, if applicable, up to the percentage set forth against each Category of the following table:

<b>Category</b>	<b>Amount of the Financing Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods, non-consulting services, consulting services, Operating Costs, and Training for the Project	7,700,000	100%
<b>TOTAL AMOUNT</b>	<b>7,700,000</b>	

**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made for payments made prior to the Signature Date.
2. The Closing Date is December 29, 2028.

## APPENDIX

### Section I. Definitions

1. “African Union” or “AU” means the union established by the Constitutive Act of the African Union adopted on July 11, 2000.
2. “African Union Commission” means the secretariat of the African Union.
3. “Africa Multi-hazard Early Warning and Early Action System” or “AMHEWAS” means the institutional and operational Framework for Multi-Hazard Early Warning and Early Action System endorsed by the 35th Assembly of AU Heads of State and Government in February 2022.
4. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
5. “AU Climate Change and Resilient Development Strategy and Action plan” means the strategy and action plan of the Recipient which provides a roadmap for member states to achieve their climate change commitments and promote sustainable economic growth.
6. “AU Water Investment Program” means the program adopted by the Assembly of the AU Heads of State and Government that aims to close the water investments gap across Africa to meet the continent’s growing needs and Sustainable Development Goal 6 on water and sanitation.
7. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
8. “Constitutive Act of the African Union” means the Constitutive Act that provides for the establishment of the African Union adopted on July 11, 2000, as amended from time to time.
9. “Early Warning Systems” or the acronym “EWS” means a warning system that can be implemented as a chain of information communication systems and comprise of sensors, event detection and decision subsystems for early identification of hazards.
10. “Environmental and Social Commitment Plan” or “ESCP” means the environmental and social commitment plan for the Project, dated November 15, 2023, as the same may be amended from time to time in accordance with the provisions thereof, which sets out the material measures and actions that the Recipient shall carry out or cause to be carried out to address the potential

environmental and social risks and impacts of the Project, including the timeframes of the actions and measures, institutional, staffing, training, monitoring and reporting arrangements, and any environmental and social instruments to be prepared thereunder.

11. “Environmental and Social Standards” or “ESSs” means, collectively: (i) “Environmental and Social Standard 1: Assessment and Management of Environmental and Social Risks and Impacts”; (ii) “Environmental and Social Standard 2: Labor and Working Conditions”; (iii) “Environmental and Social Standard 3: Resource Efficiency and Pollution Prevention and Management”; (iv) “Environmental and Social Standard 4: Community Health and Safety”; (v) “Environmental and Social Standard 5: Land Acquisition, Restrictions on Land Use and Involuntary Resettlement”; (vi) “Environmental and Social Standard 6: Biodiversity Conservation and Sustainable Management of Living Natural Resources”; (vii) “Environmental and Social Standard 7: Indigenous Peoples/Sub-Saharan African Historically Underserved Traditional Local Communities”; (viii) “Environmental and Social Standard 8: Cultural Heritage”; (ix) “Environmental and Social Standard 9: Financial Intermediaries”; (x) “Environmental and Social Standard 10: Stakeholder Engagement and Information Disclosure”; effective on October 1, 2018, as published by the Association.
12. “Financial Year” means the twelve (12) month period corresponding to any of the Recipient’s financial years, which period commences on January 1 and ends on December 31 in each calendar year.
13. “General Conditions” means the “International Development Association General Conditions for IDA Financing, Investment Project Financing”, dated December 14, 2018 (Last revised on July 15 2023), with the modifications set forth in Section II of this Appendix.
14. “Health, Humanitarian Affairs and Social Development Department” means the department of the African Union Commission responsible for, *inter alia*, promoting the AU’s health, labor, employment, migration, social development, drug control, crime prevention, sport and cultural agenda.
15. “Incident Command System” means a standardized and defined approach to the command, control and coordination of emergency response.
16. “National Emergency Operations Center” means the Republic of Malawi’s center for coordinating emergency and recovery operations.
17. “Operating Costs” means the reasonable incremental operating expenses incurred by the Recipient on account of Project implementation, management and monitoring, including operation and maintenance costs of office, vehicles and



office equipment; water and electricity utilities, telephone, office supplies, bank charges, public awareness-related media expenditures, travel and supervision costs, per diem, additional staff costs, but excluding the salaries of officials and public servants of the Recipient.

18. “Performance-Based Grant” or “PBG” means a performance-based grant to be provided under Part 2.2 of the Project for a PBG Sub-project to be carried out by a PBG Beneficiary, and “PBGs” means more than one such PBG.
19. “Procurement Regulations” means, for purposes of paragraph 85 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated September 2023.
20. “Project Implementation Manual” or “PIM” means the manual to be developed and adopted in accordance with Section I.B.1(a) of Schedule 2 to this Agreement, as such manual may be amended from time to time in accordance with Section I.B.2 of such Schedule.
21. “Project Implementation Unit” or “PIU” means the unit to be established in accordance with Section I.A.1 of Schedule 2 to this Agreement.
22. “Proxy Means Test” or “PMT” means an econometric methodology for poverty targeting where household or individual characteristics correlated with welfare levels are used in a formal algorithm to represent household income, welfare or need.
23. “Regional Steering Committee” means the Regional Steering Committee established under the first RCRP project.
24. “Sustainable Development and Blue Economy Directorate” means the directorate of the African Union Commission responsible for, *inter alia*, climate change and meteorology, water and environment, biodiversity, forestry and wildlife; disaster risk reduction, and sustainable land management.
25. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
26. “SRB” means Shire River Basin.
27. “Training” means the cost arising under the Project for approved training including, seminars, workshops, knowledge sharing activities and study tours, and covers the following costs associated with such activity: travel and subsistence costs for training participants, costs associated with securing the services of trainers, rental of training facilities, preparation and reproduction of training

materials, and other costs directly related to training preparation and implementation.

28. “Urban Public Works Program” or “UPWP” means the government of the Republic of Malawi-led public works program for the working age poor who live in urban areas focusing on small investment sub-projects, mainly for land and water conservation and for routine maintenance of infrastructure.

## **Section II. Modifications to the General Conditions**

The General Conditions are hereby modified as follows:

1. Section 2.06 (Financing Taxes) is modified to read as follows:

“Section 2.06 *Financing Taxes*

The use of any proceeds of the Financing to pay for Taxes levied by, or in the territory of, the Member Country on or in respect of Eligible Expenditures, or on their importation, manufacture, procurement or supply, if permitted by the Legal Agreements, is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association at any time determines that the amount of any such Tax is excessive, or that such Tax is discriminatory or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage of such Eligible Expenditures to be financed out of the proceeds of the Financing.”

2. Paragraphs (b) and (c) of Section 3.18 (Manner of Payment) are modified to read as follows:

“(b) All Financing Payments shall be paid without restrictions of any kind imposed by, or in the territory of, the Member Country, and without deduction for, and free from, any Taxes levied by, or in the territory of, the Member Country.

(c) The Legal Agreements shall be free from any Taxes levied by, or in the territory of the Member Country, or in connection with their execution, delivery or registration.”

3. Paragraph (a) of Section 5.11 (Visits) is modified to read as follows:

“Section 5.11 *Visits*

“(a) The Recipient shall take all action necessary or useful to ensure that the Member Country affords all reasonable opportunity for representatives of the Association to visit any part of their territories for purposes related to the Financing or the Project.”

4. Section 6.01 (Financial and Economic Data) is deleted in its entirety and the remaining section in Article VI is renumbered accordingly.
5. Section 8.02 (Suspension by the Association) is modified as follows:
  - (a) Paragraph (j) on *Membership* is modified to read as follows:

“(j) *Membership*. The Member Country or any member of the Recipient: (i) has been suspended from membership in or ceased to be a member of the Association; or (ii) has ceased to be a member of the International Monetary Fund.”
  - (b) Paragraph (m) is renumbered as paragraph (n), and a new paragraph (m) is added to read as follows:

“(m) *Interference*. The Member Country: (i) has taken or permitted to be taken any action which would prevent or interfere with the execution of the Project or the performance by the Recipient of its obligations under the Financing Agreement; or (ii) has failed to afford a reasonable opportunity for representatives of the Association to visit any part of its territory for purposes relating to Financing or the Project.”
6. The Appendix (**Definitions**) is modified as follows:
  - (a) Paragraph 77 (Member Country) is modified to read as follows:

“77. “Member Country” means the member of the Association in whose territory the Project is carried out or any such member’s political or administrative subdivisions. If such activity is carried out in the territory of more than one such member, “Member Country” refers separately to each such member.”
  - (b) Paragraph 92 (Recipient) is modified to read as follows:

“92. “Recipient” means the party to the Financing Agreement to which the Financing is extended.”