

CONFORMED COPY

GRANT NUMBER H347 - ET

Financing Agreement

(Additional Financing for Protection of Basic Services Project)

between

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated January 17, 2008



FINANCING AGREEMENT

Agreement dated January 17, 2008, entered into between FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing additional financing for the Original Project (as defined in the Appendix to this Agreement). The Recipient and the Association hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount of one hundred thirty-seven million fifty thousand Special Drawing Rights (SDR 137,050,000) to assist in financing the Project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Additional Financing in accordance with Section IV of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are May 15 and November 15 in each year.
- 2.05. The Payment Currency is the Dollar.

ARTICLE III — PROJECT

- 3.01. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out sub-component 1 (i) of the Project (Component 1 of the Original Project) and sub-component 1 (ii) of the Project (the pilot Local Investment Grant scheme) through MOFED, Component 2 of the Original Project through MOH, and Component 3 of the Original Project through MOFED, all in accordance with the provisions of Article IV of the General Conditions.
- 3.02. Without limitation upon the provisions of Section 3.01 of this Agreement, and except as the Recipient and the Association shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension is that a situation has arisen which shall make it improbable that the Program or a significant part thereof will be carried out.

ARTICLE V — EFFECTIVENESS; TERMINATION

- 5.01. The Additional Conditions of Effectiveness are:
- (a) the Recipient has adopted the revised PBS Operational Manual in form and substance satisfactory to the Association; and
 - (b) terms of reference for the annual audits of the Recipient's Financial Statements, to be undertaken pursuant to the provisions of Section II.B.3 of Schedule 2 to this Agreement, have been agreed with the Association.
- 5.02. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI— REPRESENTATIVE; ADDRESSES

6.01. The Recipient's Representative is the Minister at the time in charge of finance and economic development.

6.02. The Recipient's Address is:

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

Telex:	Facsimile:
2114	251-11551355
2115	

6.03. The Association's Address is:

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

Cable:	Telex:	Facsimile:
INDEVAS	248423 (MCI)	1-202-477-6391
Washington, D.C.	64145 (MCI)	

AGREED at Addis Ababa, Ethiopia, as of the day and year first above written.

FEDERAL DEMOCRATIC REPUBLIC OF ETHIOPIA

By /s/ Sufian Ahmed

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Kenichi Ohashi

Authorized Representative

SCHEDULE 1

Project Description

The objective of the Project is to protect the delivery of basic services by Sub-national Governments while promoting and deepening transparency and accountability in service delivery.

The Project consists of the following parts:

Part 1: **Promoting the Delivery of Basic Services by Sub-national Governments**

- (i) Promoting the delivery of basic services by Regional Governments and Local Authorities through the implementation of Subprogram A for core basic services which include education, health, water supply and sanitation, agriculture and natural resources.
- (ii) Establishment and implementation, on a pilot basis, of a specific purpose grant facility for capital expenditure at the local level through the implementation of a Local Investment Grant scheme (LIG) as Subprogram D.

Part 2: **Promoting the Health Millennium Development Goals**

Carrying out of Subprogram B by contributing funds to a Health Millennium Development Goals Performance Facility to finance:

- (i) critical inputs for primary health service delivery such as vaccines, contraceptives, long-lasting insecticide-treated mosquito nets, malaria drugs, insecticides, spray pumps and equipment;
- (ii) capacity building activities, including investment in human resources, monitoring and evaluation, as well as operational research and other activities at the MOH level; and
- (iii) strengthening of procurement and logistics, including provision of training and technical assistance to selected staff in MOH on international procurement, establishment of a Central Medical Store, and strengthening of the national distribution system.

Part 3: Strengthening Government Systems on Financial Transparency and Accountability

Carrying out of Subprogram C, including:

- (i) enhancing transparency around public budget procedures (preparation, expenditure and audits) and improving public disclosure of budget information at the Regional and Local Authorities levels;
- (ii) fostering citizens' understanding of, and engagement with, public budget processes;
- (iii) improving public disclosure by service facilities such as schools and health clinics of their annual budgets, resource levels (e.g. staffing allocations), agreed performance standards and indicators established at the Woreda and/or Regional level;
- (iv) monitoring and evaluation activities to assess progress made against the core objectives, such as carrying out financial transparency and accountability perception surveys, reviews and assessments; and
- (v) financing the services of accountants and IT personnel to be hired by MOFED and regional BOFEDs to enhance their capacity, provision of technical assistance to the Regions and Local Authorities, building capacity in OFAG, conduct of continuous audits by OFAG and provision of goods for both MOFED and OFAG.

SCHEDULE 2

Project Execution

Section I. Implementation Arrangements

A. General

The Recipient shall carry out the Original Project in accordance with the Operational Manual throughout the period of implementation. The Recipient shall ensure that the Operational Manual for the PBS Project is amended and/or extended, in form and substance satisfactory to the Association, as necessary to reflect the activities and implementation arrangements for the Additional Financing.

B. Subprograms A and C

1. *Ministry of Finance and Economic Development*

- (a) At the federal level, the Recipient shall cause MOFED to be responsible for coordination, monitoring and oversight of the implementation of Parts 1 and 3 of the Project in accordance with the Operational Manual. For this purpose, MOFED shall liaise with Pooled Funding A Partners as required. MOFED's primary responsibilities shall include:
 - (i) making timely transfers of Subprogram A and C resources to Regions and Local Authorities as per agreed fiscal transfer formulae, ensuring effective financial management and compliance with fiduciary requirements;
 - (ii) managing the implementation of various technical assistance and systems development activities to ensure transparent budget execution, enhanced fiscal reporting, and improved monitoring of key results for the delivery of basic services;
 - (iii) improving financial transparency and social accountability for public expenditures and basic services delivery at regional, local and service facility levels;

- (iv) coordinating with the Key Line Ministries, their counterpart Regional sector bureaus and Woreda sector offices, as necessary, for the implementation of Parts 1 and 3 of the Project;
 - (v) ensuring that Regional sector bureaus and Woreda sector offices disseminate service facility related information; and
 - (vi) ensuring that councils at Regional and Local Authority levels review and approve work plans and budgets in a timely manner.
- (b) At the regional level, the Recipient shall cause the *Bureaus of Finance and Economic Development* to:
- (i) transfer Subprogram A and C resources to Local Authorities based on agreed plans for delivery of basic services;
 - (ii) coordinate Project implementation and launch start-up activities;
 - (iii) mobilize technical assistance from other line agencies as may be required;
 - (iv) review and consolidate progress reports from Local Authorities, and provide feedback, as necessary; and
 - (v) monitor and evaluate overall performance and resource use.
- (c) At the local level, the Recipient shall cause *Woreda Offices of Finance and Economic Development* and *Urban Administration Offices of Finance* to be responsible for managing and coordinating the day-to-day implementation of Project activities. WOFEDs and UAOFs shall undertake operational tasks such as planning, supervision, financial management, monitoring and evaluation.

2. *Ministry of Capacity Building*

The Recipient shall cause the MCB at the federal level and bureaus at regional and local levels to collaborate closely with MOFED in the overall coordination and implementation of Part 3 of the Project in accordance with the Operational Manual, ensuring appropriate focus on the capacity building aspects of planned

interventions, fostering proper alignment with national capacity building efforts, and building on the experience of related ongoing programs and interventions.

C. Subprogram B

1. *Ministry of Health*

- (a) The Recipient shall cause the MOH to be responsible for overall implementation of Subprogram B in accordance with the Operational Manual. The *Central Joint Steering Committee, Regional Joint Steering Committees* and *Woreda Joint Steering Committees* respectively, at federal, regional and local levels, shall assist MOH in the implementation of Subprogram B in accordance with the Operational Manual and as set forth below.
- (b) Without limitation to the generality of paragraph (a) above, the Recipient shall cause CJSC to ensure that:
 - (i) procurement and logistics plans are appropriately drawn up and implemented;
 - (ii) procurement is timely and commodities are efficiently and equitably distributed to beneficiary institutions in the Regions and at local levels;
 - (iii) capacity building plans are fully implemented;
 - (iv) quarterly meetings are held with RJSCs to assess the implementation of Subprogram B and make recommendations, as necessary; and
 - (v) regular quarterly reports are provided to the Recipient on the status of implementation of Subprogram B for consolidation into the Project Reports submitted to the Association.
- (c) Without limitation to the generality of paragraph (a) above, the functions of RJSCs in the implementation of Subprogram B shall include:
 - (i) regular supervision of implementation of Subprogram B in the Region concerned;

- (ii) holding of quarterly meetings with WJSCs to assess the status of implementation and agree on next steps; and
 - (iii) participation in quarterly meetings of the CJSC and submission to it of regular quarterly reports covering aspects such as finance, service delivery outputs and outcomes, availability of technical staff and commodities, challenges encountered during implementation and actions taken.
- (d) Without limitation to the generality of paragraph (a) above, the responsibilities of WJSCs in the implementation of Subprogram B shall include:
- (i) regular transportation of commodities and equipment from designated medical stores to health institutions at local levels;
 - (ii) ensuring of timely, need-based distribution of items to health facilities;
 - (iii) review of monthly institutional reports and provision of recommendations, as necessary;
 - (iv) holding of quarterly meetings to assess implementation status and agree on next steps;
 - (v) submission of quarterly reports to the relevant RJSC; and
 - (vi) participation in RJSC quarterly meetings.

D. Subprogram D

1. The Recipient shall carry out the pilot LIG component of Subprogram D in accordance with the LIG Operational Manual.
2. The Recipient shall cause the Macroeconomic Policy and Management Department within MOFED or other department to be designated by MOFED to be responsible for the overall implementation, coordination, monitoring and oversight of Subprogram D in accordance with the LIG Operational Manual.

E. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

F. Environmental and Social Safeguards

1. The Recipient shall carry out the Project in accordance with the: (i) Guidelines for Handling and Disposal of Medical Waste; (ii) Guidelines for Malaria Vector Control; and (iii) Guidelines for Indoor Residual Insecticide Spraying.
2. The Recipient shall ensure that the pilot LIG subcomponent is carried out in accordance with the Environmental and Social Management Framework (ESMF) and the Resettlement Policy Framework (RPF) prepared for the purposes of the construction of small-scale civil works under Subprogram D.

Section II. Project Monitoring, Reporting and Evaluation

A. Project Reports

The monitoring and evaluation arrangements established for the Original Project will continue under the Additional Financing as follows:

1. (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 4.08 of the General Conditions and on the basis of the indicators set forth below in sub-paragraph (b) of this paragraph as agreed between the Recipient and the Association. Each Project Report shall cover the period of six (6) months, and shall be furnished to the Association not later than three (3) months after the end of the period covered by such report.
- (b) The performance indicators referred to above in sub-paragraph (a) consist of the following:
 - (i) The aggregate level of Block Grant transfers including Subprogram A resources (Federal Government to Regions) increases from the recorded 9.6 billion Birr assessed in EFY99 by 4 billion Birr for EFY00, and further increases in EFY01 at a level commensurate with local and external revenue mobilization.

- (ii) Block Grant transfers to Local Authorities including Subprogram A resources are in accordance with intergovernmental fiscal rules.
 - (iii) Proportion of children vaccinated against DPT3+HepB3+Hib3 increases to 80% in EFY00 relative to 75.6% in EFY98.
 - (iv) The contraceptive prevalence rate increases to 55% in EFY00 from 35.8% in EFY98.
 - (v) Percentage of pilot woredas adopting and implementing new national standards and systems in the areas of planning and budgeting, procurement, environmental screening and resettlement, increases.
 - (vi) Increased citizens' understanding of, and engagement in public budget processes by EFY01 as assessed by a quantitative survey, as compared to EFY00.
2. During Project implementation, the Recipient shall ensure that at least three Joint Budget and Aid Reviews (JBARs) are carried out, pursuant to the provisions of the Operational Manual. Unless otherwise agreed with the Association, the JBARs shall be carried out according to the following schedule:
- (a) First JBAR in April 2008;
 - (b) Second JBAR in October 2008; and
 - (c) Third JBAR in April 2009.
3. The Recipient shall:
- (a) by February 28, 2008, complete field work for a baseline financial transparency and accountability perception survey;
 - (b) by April 30, 2008: (i) complete field work for of a quantitative health service delivery survey; and (ii) confirm availability of financing for behaviour change communication toolkits and health extension worker training;

- (c) by February 28, 2009, begin field work for a follow-up of the financial transparency and accountability perception survey referred to in subparagraph (a) of this paragraph; and
- (d) by May 31, 2009, complete a post procurement audit covering a minimum of twenty-five percent (25%) of the pilot LIG woredas under Subprogram D.

B. Financial Management, Financial Reports and Audits

- 1. The Recipient shall maintain or cause to be maintained a financial management system in accordance with the provisions of Section 4.09 of the General Conditions.
- 2. Without limitation on the provisions of Part A of this Section, the Recipient shall prepare and submit to the Association not later than three (3) months after the end of each Ethiopian fiscal quarter, interim unaudited financial reports for the Project, in a form and substance satisfactory to the Association.
- 3. The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 4.09 (b) of the General Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the Association not later than nine (9) months after the end of such period.
- 4. The Recipient shall also cause OFAG to audit, on a continuous basis, samples of Regions and Local Authorities that have received funds under Subprograms A and D. The Recipient shall cause OFAG to provide the Association with quarterly summaries of these audit findings, within three (3) months of the end of each Ethiopian fiscal quarter.

Section III. Procurement

A. General

- 1. **Goods and Works.** All goods and works required for the Project and to be financed out of the proceeds of the Additional Financing shall be procured in accordance with the requirements set forth or referred to in Section I of the Procurement Guidelines, and with the provisions of this Section.
- 2. **Consultants' Services.** All consultants' services required for the Project and to be financed out of the proceeds of the Additional Financing shall be procured in

accordance with the requirements set forth or referred to in Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. **Definitions.** The capitalized terms used below in this Section to describe particular procurement methods or methods of review by the Association of particular contracts, refer to the corresponding method described in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

B. Particular Methods of Procurement of Goods and Works

1. **International Competitive Bidding.** Except as otherwise provided in paragraph 2 below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding. Domestic preference will apply when included in bidding documents.
2. **Other Methods of Procurement of Goods and Works.** The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods and works. The Procurement Plan shall specify the circumstances under which such methods may be used:

Procurement Methods
(a) Limited International Bidding
(b) National Competitive Bidding
(c) Shopping
(d) Direct Contracting
(e) Procurement from United Nations Children's Fund (UNICEF) and United Nations Population Fund (UNFPA)

C. Particular Methods of Procurement of Consultants' Services

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For the purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for consulting services estimated to cost less than \$200,000 equivalent, per contract, may include only consultants from the country of the Recipient.

2. **Other Methods of Procurement of Consultants' Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants' services. The Procurement Plan shall specify the circumstances under which such methods may be used.

Procurement Methods
(a) Least Cost Selection
(b) Selection Based on the Consultants' Qualifications
(c) Single Source Selection
(d) Selection of Individual Consultants
(e) Community Participation

D. Review by the Bank of Procurement Decisions

1. Procurement of goods, works and services under Subprogram D shall be subject to Post Review on a sample basis.

2. Except as the Association shall otherwise determine by notice to the Recipient, the following contracts under Subprograms B and C shall be subject to Prior Review by the Association:
 - (a) each contract for goods estimated to cost the equivalent of \$150,000 or more; (b) all contracts procured on the basis of Direct Contracting; (c) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more; (d) each contract for consultants' services provided by an individual consultant estimated to cost the equivalent of \$50,000 or more; and (e) all contracts for consultants selected on Single Source basis. All other contracts for Subprograms B and C shall be subject to Post Review by the Association.

Section IV. Withdrawal of the Proceeds of the Additional Financing

A. General

1. The Recipient may withdraw the proceeds of the Additional Financing in accordance with the provisions of this Section and such additional instructions as the Association shall specify by notice to the Recipient, to finance Eligible Expenditures as set forth in the table in paragraph 2 below.
2. The following table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Additional Financing (“Category”), the allocations of the amounts of the Additional Financing to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

	Categories	Amount of the Additional Financing (expressed in SDR)	% of expenditures to be financed
1.	Subprogram A	105,090,000	Such percentage of Eligible Expenditures as the Association may determine for each EFY
2.	Subprogram B	18,580,000	Such percentage of Eligible Expenditures as the Association may determine for each EFY
3.	Subprogram C	640,000	Such percentage of Eligible Expenditures as the Association may determine for each EFY
4.	Subprogram D	12,740,000	Such percentage of Eligible Expenditures as the Association may determine for each EFY
	TOTAL	137,050,000	

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section, no withdrawal shall be made:
 - (a) for payments in respect of expenditures incurred prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed the equivalent of forty-three million Dollars (US\$43,000,000)

may be made in respect of Eligible Expenditures incurred under Category (1) for payments made prior to this date but on or after January 8, 2007.

- (b) under Categories (1) and (3), unless the Association has confirmed in writing that: (A) the annual sub-national budget for basic services comprising the relevant Subprogram, satisfactory to the Association, has been delivered to the Association; (B) the relevant JBAR has been successfully completed; and (C) the quarterly financial reports, prepared in accordance with the provisions of Section II.B.2 of Schedule 2 to this Agreement, and relating to the relevant Project semester, have been delivered to the Association;
- (c) under Category (2), unless the Association has confirmed in writing that: (A) the annual work plan for Subprogram B, satisfactory to the Association, has been delivered to the Association; and (B) the quarterly financial reports, prepared in accordance with the provisions of Section II.B.2 of Schedule 2 to this Agreement, and relating to the relevant Project semester, have been delivered to the Association.
- (d) under Category (4), unless the Association has confirmed in writing that: (A) the LIG Operational Manual, satisfactory to the Association, relating to Subprogram D has been delivered to the Association and that the Association has received evidence satisfactory to the Association that the LIG Operational Manual has been duly adopted by the Recipient; and (B) the quarterly financial reports, prepared in accordance with the provisions of Section II.B.2 of Schedule 2 to this Agreement, for the LIG sub-component and relating to the relevant Project semester, have been delivered to the Association.

2. The Closing Date is June 30, 2009.

APPENDIX

I. Definitions

1. “Anti-Corruption Guidelines” means the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006.
2. “Category” means a category set forth in the table in Section IV of Schedule 2 to this Agreement.
3. “Consultant Guidelines” means the “Guidelines: Selection and Employment of Consultants by World Bank Borrowers” published by the Bank in May 2004 and revised in October 2006.
4. “Designated Pooled Account D” means the account to be maintained in the National Bank of Ethiopia in Dollars to finance activities relating to Subprogram D, into which the Pooled Funding D Partners funds shall be deposited.
5. “Environmental and Social Management Framework” means the Recipient’s framework, prepared in form and substance satisfactory to the Association, dated August 2007, prepared for purposes of the pilot LIG subcomponent of the Project, describing measures for the mitigation of the potential adverse environmental and social impact of the Project, as the same may be updated from time to time with the concurrence of the Association, and to be applied in accordance with the provisions of Section I.F.2 of Schedule 2 of this Agreement.
6. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006).
7. “Guidelines for Malaria Vector Control” means the Recipient’s guidelines describing the strategies, activities, and measures to be taken for vector control, based on entomological surveillance/surveys, published on March 2002, as the same may be updated from time to time with the concurrence of the Association.
8. “Guidelines for Indoor Residual Insecticide Spraying” means the Recipient’s guidelines describing measures to be taken in storing and handling insecticide use for internal spraying, and related training guidelines for staff involved in IRS, revised in April 2007, as the same may be updated from time to time with the concurrence of the Association.
9. “LIG” means the Local Investment Grant scheme established under Subprogram D.

10. “LIG Operational Manual” means a manual relating to the pilot LIG sub-component of the Project, in form and substance satisfactory to the Association, setting forth details of the procedures, guidelines, timetables and criteria required for the implementation of the pilot LIG sub-component, as such manual may be amended from time to time with the prior agreement of the Association.
11. “Local Investment Grant” means a multi-sector specific purpose grant made by the Federal Government within the framework of the Program, and having the purpose of increasing the quality and quantity of capital spending by Woreda Governments in the following sectors: health, education, agriculture, natural resources (including water) and rural roads.
12. “MOU D” means a Memorandum of Understanding or other arrangements to be entered into between the Recipient, the Association and all the Pooled Funding D Partners, providing for common arrangements and procedures on procurement, disbursement, accounting, monitoring, reporting, auditing, coordination and exchange of information required for the implementation of Subprogram D.
13. “Original Financing Agreement” means the Financing Agreement for the Protection of Basic Services Project (Grant No. H224-ET) between the Recipient and the Association, dated May 29, 2006.
14. “Original Project” means the Project described in the Original Financing Agreement.
15. “Pooled Funding D Partners” means collectively, the Association and any other international development agencies or governments that are pooling at least a part of their funds for Part (1) (ii) of the Project into Designated Pooled Account D, and who will be a party to MOU D.
16. “Procurement Guidelines” means the “Guidelines: Procurement under IBRD Loans and IDA Credits” published by the Bank in May 2004 and revised in October 2006.
17. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 14, 2007, and referred to in paragraph 1.16 of the Procurement Guidelines and paragraph 1.24 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.
18. “Resettlement Policy Framework” means the instrument prepared by the Recipient, dated August 2007, in form and substance satisfactory to the Association, for use throughout the implementation of the pilot LIG subcomponent of the Project, and publicly disclosed in impacted areas, and setting out the resettlement and compensation policy, organizational

arrangements and design criteria to be applied to meet the needs of the people who may be affected by the Project.

19. "Subprogram D" means an annual program of activities and associated budget for Part 1 (ii) of the Project to be financed from Designated Pooled Account D.

II. Modification to the General Conditions

The modification to the General Conditions for Credits and Grants of the Association, dated July 1, 2005 (as amended through October 15, 2006) is in respect of paragraph (a) of Section 2.05. *Eligible Expenditures*, which shall hereby be modified to read as follows:

- "(a) the payment is for the financing of the reasonable cost of: (i) with respect to Subprogram A, operating costs (including salaries of the officials of the Recipient's civil service, equipment operation and maintenance costs, communication charges, transportation costs, field supervision travel allowances, office supplies, and fuel); (ii) with respect to Subprogram B, goods, training and workshops, consultants' services including audits, and operating costs (including equipment operation and maintenance costs, communication charges, transportation costs, field supervision travel allowances, office supplies, and fuel); (iii) with respect to Subprogram C, goods, training and workshops, consultants' services including audits, and operating costs (including equipment operation and maintenance costs, communication charges, transportation costs, field supervision travel allowances, office supplies, and fuel); and (iv) with respect to subprogram D, goods, works, or services, required for the Project, to be financed out of the proceeds of the Financing and procured, all in accordance with the provisions of the Legal Agreements;"