

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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Washington, D.C. 20433
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CONFORMED COPY

June 6, 2011

Honorable Ken Edward Kandodo
Minister of Finance
Ministry of Finance
P.O. Box 30049
Lilongwe 3

Re: Republic of Malawi: Advance Agreement for Preparation of
Proposed Energy Sector Support Project
Preparation Advance No. Q7720

Excellency:

In response to the request for financial assistance made on behalf of the Republic of Malawi (“Recipient”), I am pleased to inform you that the International Development Association (“World Bank”) proposes to extend to the Recipient an advance out of the World Bank’s Project Preparation Facility in an amount not to exceed three million United States Dollars (\$3,000,000) (“Advance”) on the terms and conditions set forth or referred to in this letter agreement (“Agreement”), which includes the attached Annex, to assist in financing the activities described in the Annex (“Activities”). The objective of the Activities is to facilitate the preparation of a proposed project designed to increase the reliability and quality of electricity supply in the major load centers in The Recipient’s territory (“Project”), in support of which the Recipient has requested the World Bank’s financial assistance.

The Recipient represents, by confirming its agreement below, that: (a) it understands that the provision of the Advance does not constitute or imply any commitment on the part of IBRD or IDA to assist in financing the Project; and (b) it is authorized to enter into this Agreement and to carry out the Activities, repay the Advance and perform its other obligations under this Agreement, all in accordance with the provisions of this Agreement.

Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date of the countersignature; provided, however, that the offer of this Agreement shall be deemed withdrawn if the World Bank has not received this countersigned copy within 90 days after the date of signature of this Agreement by the World Bank, unless the World Bank has established a later date for such purpose.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Olivier Godron
Olivier Godron
Acting Country Director for Malawi, Zambia and Zimbabwe
Africa Region

AGREED:
REPUBLIC OF MALAWI

By: /s/ Honorable Ken Edward Kandodo
Authorized Representative
Name: Honorable Ken Edward Kandodo
Title: Minister of Finance
Date: July 4, 2011

Enclosures:

- (1) "Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility", dated July 31, 2010; and
- (2) Disbursement Letter for the Advance of the same date as this Agreement, together with "World Bank Disbursement Guidelines for Projects", dated May 1, 2006.

Article I

Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Advances Made by the World Bank under its Project Preparation Facility dated July 31, 2010 (“Standard Conditions”), constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement and the following term has the following meaning:

- (a) “Electricity Supply Corporation of Malawi” or “ESCOM” means a public utility company which was created under the Electricity Supply Commission of Malawi Repeal Act, 1998 and which received presidential assent on December 1999.
- (b) “Ministry of Natural Resources, Energy and Environment” or “MNREE” means the Recipient’s ministry responsible for natural resources, energy and environment.

Article II

Execution of the Activities

2.01. **Description of the Activities.** The Activities for which the Advance is provided consist of the following parts:

- (a) Refinement of the Project’s Environmental and Social Management Framework and Resettlement Policy Framework and preparation of an Environmental & Social Impact Assessment for the Project.
- (b) Carrying out the preparatory activities for the rehabilitation and upgrading of priority parts of the existing electricity transmission and distribution system, including: (i) financing feeder meters to measure detailed baseline losses at district level; (ii) putting in place an Automatic Meter Reading (AMR) system for remote meter reading; and (iii) providing technical assistance for drawing up technical documents, preparing detailed cost estimates and coordinating the procurement process.
- (c) Carrying out the preparatory activities for conducting full technical feasibility studies of new hydropower generation sites in the Recipient’s territory, including drawing up technical documents, coordinating the related procurement process and preparing detailed cost estimates.
- (d) Carrying out the preparatory activities for the demand-side management and the energy efficiency measures to be supported by the Project, including drawing up technical documents and coordinating the procurement process.

- (e) Setting up the Recipient's and ESCOM's institutional arrangements, including project management, coordination and monitoring structure, preparation of procurement and financial management manuals, and provision of training to support project implementation with the aim of strengthening the Recipient's implementation capacity to carry out the Project.

2.02. **Execution of the Activities Generally.** The Recipient declares its commitment to the objectives of the Activities. To this end, the Recipient shall carry out Parts (c) and (e) of the Activities through MNREE and cause Parts (a), (b), (d) and (e) of the Activities to be carried out by ESCOM, with Part (e) to be carried out jointly by the Recipient and by ESCOM, in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) this Article II; and (c) 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.

2.03. **Institutional and Other Arrangements.** (a) The Recipient shall ensure that the Subsidiary Agreement shall include, at all times during the implementation of the Project, provisions to the following effect:

- (i) The Recipient's obligation to provide part of the proceeds of the Advance to ESCOM on terms and conditions satisfactory to the World Bank;

- (ii) ESCOM obligation to carry out Parts (a), (b), (d) and (e) of the Project with due diligence and efficiency, in conformity with appropriate administrative, technical, environmental and social practices, under the supervision of qualified and experienced management assisted by competent staff in adequate numbers, and in accordance with the provisions of this Agreement;

- (iii) ESCOM obligation to promptly inform the Recipient and the World Bank of any condition which interferes or threatens to interfere with the progress of Parts (a), (b), (d) and (e) of the Project and the performance of its obligations under the Subsidiary Agreement;

- (iv) ESCOM obligation to procure the goods, non-consulting services and consultants' services required for Parts (a), (b), (d) and (e) of the Project and to be financed out of the proceeds of the Advance, in accordance with the provisions of Section 2.07 of this Annex; and

- (v) ESCOM obligation to neither take nor concur in any action which would have the effect of amending, abrogating, assigning or waiving the Subsidiary Agreement.

(b) The Subsidiary Agreement shall include a provision stipulating that in the case of conflict between the Subsidiary Agreement and this Agreement, the latter shall prevail.

2.04. **Monitoring, Reporting and Evaluation of the Activities.** The Recipient shall monitor and evaluate the progress of the Activities in accordance with the provisions of Section 2.08 of the Standard Conditions.

2.05. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.09 of the Standard Conditions.

(b) The Recipient shall ensure that interim un-audited financial reports for the Activities are prepared and furnished to the World Bank not later than forty five days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Sections 2.09 (b) of the Standard Conditions.

(i) If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, the Recipient shall have the Financial Statements included in the first audit of financial statements required under the Refinancing Agreement.

(ii) If, by the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, such audit of the Financial Statements shall cover the period of the Advance, commencing with the fiscal year in which the first withdrawal under the Advance was made. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of the Recipient's fiscal year in which the Refinancing Date occurs.

(iii) Notwithstanding the provisions of paragraphs (i) and (ii) of this Section, the World Bank may request an audit of the Financial Statements prior to the Refinancing Date, covering such period as is indicated in its request. The audited Financial Statements for such period shall be furnished to the World Bank not later than six months after the end of such period.

2.06. Procurement

(a) General. All good, non-consulting services and consultants' services required for the Project and to be financed out of the proceeds of the Advance shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the "Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 ("Procurement Guidelines"), in the case of goods and non-consulting services;

(ii) Sections I and IV of the "Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers" dated January 2011 ("Consultant Guidelines") in the case of consultants' services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines ("Procurement Plan").

(b) Definitions. The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the

Procurement Guidelines, or Sections II, III, IV and V of the Consultant Guidelines, as the case may be.

(c) Particular Methods of Procurement of Goods and Non-consulting Services

Goods and non-consulting services shall be procured under contracts awarded on the basis of: (A) International Competitive Bidding; and (B) Shopping.

(d) Particular Methods of Procurement of Consultants' Services

Consultants' services shall be procured under contracts awarded on the basis of: (A) Quality- and Cost-based Selection; and (B) Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank's Prior Review. All other contracts shall be subject to Post Review by the World Bank.

**Article III
Withdrawal of the Advance**

3.01. **Eligible Expenditures.** The Recipient may withdraw the proceeds of the Advance in accordance with the provisions of: (a) Article III of the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies each category of Eligible Expenditures that may be financed out of the proceeds of the Advance ("Category"), the amount of the Advance allocated to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:

Category	Amount of the Advance Allocated (expressed in Dollars)	Percentage of Expenditures to be Financed (inclusive of Taxes)
(1) Goods, non-consulting services, consultants' services and Training	2,985,000	100%
(2) Operating Costs	15,000	100%
TOTAL AMOUNT	3,000,000	

For the purposes of this Section:

- (a) the term “Training” means the reasonable cost of the following expenditures incurred for training, workshops and study tours provided under the Project: (i) transportation costs and per diem of trainers and trainees, (ii) rental of training facilities; and (iii) preparation, acquisition, reproduction and distribution of training materials.
- (b) the term “Operating Costs” means the reasonable cost of the following expenditures incurred under the Project: (i) salaries of Project staff (excluding civil servants); (ii) per diem and travel expenses of staff required to perform their responsibilities under Project; (iii) fuel, and vehicle maintenance and insurance services; (iv) communication technology (including, without limitation, internet and telephone service); (v) rent for office space and building security and office maintenance services; (vi) translation services, photocopies and publications; and (vii) utilities and office supplies.

3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Refinancing Date.** The Refinancing Date is December 1, 2011.

Article IV Terms of the Advance

4.01. **Service Charge.** The Recipient shall pay a service charge on the Withdrawn Advance Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum. The service charge shall accrue from the respective dates on which amounts of the Advance are withdrawn and shall be paid in arrears in accordance with the provisions of Section 4.02 of this Agreement. Service charges shall be computed on the basis of a 360-day year of twelve 30-day months.

4.02. **Repayment.** The Withdrawn Advance Balance shall be repaid by the Recipient to the World Bank (together with any service charges accrued thereon) in accordance with the provisions of Article IV of the Standard Conditions and the following provisions:

(a) *Refinancing under the Refinancing Agreement:* If, on or before the Refinancing Date, a Refinancing Agreement has been executed by all of its parties, then the full amount of the Withdrawn Advance Balance shall be repaid to the World Bank (together with any service charges accrued on the Advance to the date of repayment) as soon as the Refinancing Agreement becomes effective, by means of a withdrawal by the World Bank of an amount of the Refinancing Proceeds equivalent to the Withdrawn Advance Balance plus such service charges, in accordance with the provisions of the Refinancing Agreement.

(b) *Repayment in the absence of a Refinancing Agreement:* If, on or before the Refinancing Date, no Refinancing Agreement has been executed by all of its parties, or if, by such date or at any time thereafter, it has been so executed but terminates without becoming effective, then:

- (i) if the amount of the Withdrawn Advance Balance does not exceed \$50,000, it shall be repaid by the Recipient to the World Bank (together with service charges accrued on the Withdrawn Advance Balance to the date of repayment) on such date as the World Bank shall specify in a notice to the Recipient, which shall in

no event be earlier than 60 days following the date of dispatch of such notice;
and

- (ii) if the amount of the Withdrawn Advance Balance exceeds \$50,000, it (together with service charges accrued on the Withdrawn Advance Balance to the Notice Date) (the "Aggregate Balance") shall be paid by the Recipient to the World Bank in ten approximately equal semiannual installments, in the amounts and on the dates ("Payment Dates") which the World Bank shall specify in a notice to the Recipient. In no event shall the first Payment Date be set earlier than 60 days following the date ("Notice Date") of dispatch of such notice. The Recipient shall pay a service charge on the Aggregate Balance at the rate of three-fourths of one percent (3/4 of 1%) per annum, payable in arrears on each Payment Date. The service charge shall be computed on the basis of a 360-day year of twelve 30-day months.

Article V

Additional Remedies

5.01. *Additional Events of Suspension.* The Additional Event of Suspension consists of the following:

The "Electricity Supply Commission of Malawi Repeal Act, 1998" pursuant to which ESCOM has been established and is operating has been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of the ESCOM to perform any of its obligations under the Subsidiary Agreement.

Article VI

Recipient's Representative; Addresses

6.01. *Recipient's Representative.* The Recipient's Representative referred to in Section 9.02 of the Standard Conditions is its minister responsible for Finance.

6.02. *Recipient's Address.* The Recipient's Address referred to in Section 9.01 of the Standard Conditions is:

Ministry of Finance
P. O. Box 30049
Capital City
Lilongwe 3
Malawi

Cable:
FINANCE
Lilongwe

Telex:
44407 MI

Facsimile:
265-1-789173

6.03. *World Bank's Address.* The World Bank's Address referred to in Section 9.01 of the Standard Conditions is:

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

Cable:

Telex:

Facsimile:

INDEVAS
Washington, D.C.

248423 (MCI) or
64145

1-202-477-6391

(MCI)