

The World BankINTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
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CONFORMED COPY

March 22, 2011

H.E. Mr. Ken Edward Kandodo
Minister of Finance
Ministry of Finance
P.O. Box 30049
Lilongwe
Republic of Malawi

Re: Republic of Malawi: Advance Agreement for the Preparation of
the Proposed Shire River Basin Management Project
Preparation Advance No. Q763-MAI

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 One million five hundred thousand United States Dollars (US\$1,500,000) (“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 develop a strategic planning and development framework for the Shire River Basin and to support targeted investments to improve land and water resources management in the basin (“Project”), for the carrying out 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.

Very truly yours,
INTERNATIONAL DEVELOPMENT ASSOCIATION

By: /s/ Sergiy V. Kulyk
Sergiy V. Kulyk
Acting Country Director
Malawi, Zambia, Zimbabwe
Africa Region

AGREED:
REPUBLIC OF MALAWI

By: /s/ H.E. Mr. Ken Edward Kandodo
Authorized Representative

Name: Mr. Ken Edward Kandodo

Title: Minister of Finance

Date: April 29, 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.

Article II

Execution of the Activities

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

- (a) Preparation of an implementation plan for the Project including an operational manual, a procurement manual and a financial management manual.
- (b) Development of a first year monitoring baseline.
- (c) Preparation of an environmental and social assessment including an Environmental and Social Management Framework (ESMF) and a Resettlement Policy Framework (RPF) for the Project.
- (d) Carrying out technical studies for small-scale water infrastructure as well as an institutional capacity building needs assessment for the Project implementation.
- (e) Carrying out stakeholder workshops, study tours and training with the aim of building a shared appreciation institutional models for basin management and innovative approaches to catchment and flood management.

All through the provision of technical assistance, goods and incremental operating costs required for the successful preparation of 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 the Activities through the Ministry of Irrigation and Water Development (MOIWD) 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. *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.

2.04. **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 (45) 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. Each such audit of the Financial Statements shall cover the period of one fiscal year of the Recipient, 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 such period.

2.05. **Procurement**

(a) General. All goods and services required for the Activities 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 for Procurement of Goods and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” published by the World Bank in 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” published by the World Bank in 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 Activities 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 the Procurement Guidelines, or the Consultant Guidelines, as the case may be.

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

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and non-consulting services shall be procured under contracts awarded on the basis of International Competitive Bidding subject to the following additional procedures:

(1) Regulation 80.3 (b) (ii) of the Public Procurement Regulations permitting the consideration of unquantifiable criteria, such as local

content, technology transfer, and managerial, scientific, and operational skills development, in the evaluation of bids shall not apply;

(2) Regulation 80.4 of the Public Procurement Regulations permitting domestic preference shall not apply; and

(3) Regulations 164 (i) and (j) of the Public Procurement Regulations permitting the division of contracts into small lots and the restriction of contracts to small enterprises, respectively, for purposes of promotion of the participation of small enterprises, shall not apply.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods and non-consulting services for those contracts which are specified in the Procurement Plan: (A) Shopping; and (B) Direct Contracting.

(d) Particular Methods of Procurement of Consultants' Services

(i) Except as otherwise provided in sub-paragraph (ii) below, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following method, other than Quality- and Cost-based Selection, may be used for the procurement of consultants' services for those assignments which are specified in the Procurement Plan: (A) Selection based on Consultants' Qualifications; (B) Single Source Selection; (C) Quality Based Selection; and (D) 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, training and consultants' services for the Activities	1,330,000	100%
(2) Operating Costs	170,000	100%
TOTAL AMOUNT	1,500,000	

For the purposes of this Section:

(a) the term "Training" means the reasonable cost of the following expenditures incurred for training and workshops provided under the preparation of the Project including transportation costs, hotel accommodation and per diem of trainers and trainees, refreshments, rental of training facilities and equipment, and training materials;

(b) the term "Operating Costs" means the reasonable incremental expenditures incurred in the context of the preparation of the Project, consisting of (i) salaries of Project staff (excluding civil servants), rental of office space, office supplies, communication technology (including, without limitation, internet and telephone service), utilities and office supplies, hotel, travel, per diem allowances when on travel, vehicle maintenance, and vehicle rental.

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 June 1st, 2012.

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

Recipient’s Representative; Addresses

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

5.02. *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
Lilongwe 3, Malawi

Cable:

Telex:

Facsimile:

FINANCE, Lilongwe 44407

+265 1 789 123

5.03. *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

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