

**CONFORMED COPY**

**CREDIT NUMBER 3734 MAI**

# **Agreement Providing for the Amendment and Restatement of the Development Credit Agreement**

**(Financial Management, Transparency and Accountability Project)**

**between**

**REPUBLIC OF MALAWI**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated July 20, 2006**

**CREDIT NUMBER 3734 MAI**

AGREEMENT, dated July 20, 2006, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association) (hereinafter referred to as the Agreement Providing for the Amendment and Restatement of the Development Credit Agreement).

WHEREAS the Borrower and the Association have agreed to amend the Development Credit Agreement between the Borrower and the Association dated April 24, 2003, as amended (hereinafter referred to as the Development Credit Agreement) in the manner hereinafter set forth;

NOW THEREFORE the parties hereto agree as follows:

**ARTICLE I**

Section 1.01. The Development Credit Agreement is hereby amended and restated so as to read as set forth in the Annex hereto.

Section 1.02. This Agreement shall become effective upon signature by the parties.

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their respective names in Lilongwe, Malawi, as of the day and year first above written.

REPUBLIC OF MALAWI

By /s/ Goodall E. Gondwe

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Michael Baxter

Authorized Representative

**ANNEX  
TO AGREEMENT PROVIDING FOR AMENDMENT AND RESTATEMENT OF  
THE DEVELOPMENT CREDIT AGREEMENT**

**CREDIT NUMBER 3734 MAI**

**AMENDED AND RESTATED  
DEVELOPMENT CREDIT AGREEMENT**

**(Financial Management, Transparency and Accountability Project)**

**between**

**REPUBLIC OF MALAWI**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated April 24, 2003  
as amended and restated on July 20, 2006**

**CREDIT NUMBER 3734 MAI**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated April 24, 2003, as amended and restated on July 20, 2006, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS as the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project; and

WHEREAS the Association has agreed, on the basis, *inter alia*, of the foregoing, to extend the Credit to the Borrower upon the terms and conditions set forth in this Agreement;

NOW THEREFORE the parties hereto hereby agree as follows:

**ARTICLE I**

**General Conditions; Definitions**

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985 (as amended through October 6, 1999), constitute an integral part of this Agreement.

Section 1.02. Unless the context otherwise requires, the several terms defined in the General Conditions have the meanings therein set forth and the following additional terms have the following meanings:

(a) "Agreement Providing for the Amendment and Restatement of the Development Credit Agreement" means the Agreement between the Borrower and the Association dated July 20, 2006;

(b) "Annual Work Plan" means the collective plan and budget prepared annually by the FIMTAP Secretariat for the Project;

(c) "CBF" or "Capacity Building Facility" means the facility referred to in Part A.1 (f) of Schedule 2 to this Agreement, for the provision of training in public sector management to relevant staff of the Borrower;

(d) “DISTMS” means the Department of Information Systems and Technology Management Services within the Borrower’s Ministry of Finance;

(e) “Financial Management Sub-Committee” means the sub-committee to be established by the Borrower referred to in paragraph 4 of Section II of Schedule 4 to this Agreement;

(f) “Financial Monitoring Report” or “FMR” means each report prepared in accordance with Section 4.02 of this Agreement;

(g) “FY” or “Fiscal Year” means the Borrower’s fiscal year commencing on July 1 and ending on the following June 30;

(h) “FIMTAP Secretariat” means the Project coordination unit, to be established within the Borrower’s Office of the President and Cabinet for the purpose of overall implementation and monitoring of the Project referred to in paragraph 6 of Section II of Schedule 4 to this Agreement;

(i) “GWAN” means Government Wide Area Network, a computer network established for the purpose of supporting integrated information systems;

(j) “Technical Committee” means the committee to be established by the Borrower referred to in paragraph 5 of Section II of Schedule 4 to this Agreement;

(k) “IFMIS” means the Borrower’s Integrated Financial Management Information System;

(l) “MK” means Malawi Kwacha, the Borrower's currency;

(m) “MTEF” means the Borrower’s Medium Term Expenditure Framework;

(n) “MOF” means the Borrower’s Ministry of Finance;

(o) “NAO” means the Borrower’s National Audit Office;

(p) “PIF” or “Performance Incentive Facility” means the facility referred to in Part C of Section II of Schedule 2 of this Agreement, established for the provision of grants for Subprojects as an incentive for the Project’s implementing agencies to fulfill their performance monitoring indicators for each Project Quarter as reflected in the Annual Work Plan;

(q) “PIP” or “Project Implementation Plan” means the implementation, administration, procurement and accounting manuals for the implementation of the Project referred to in paragraph 7 of Section II of Schedule 4 of this Agreement;

(r) "Project Preparation Facility" means the project preparation advance granted by the Association to the Borrower pursuant to the letter of agreement signed on behalf of the Association on September 27, 2001 and on behalf of the Borrower on October 10, 2001;

(s) "Project Quarter" means the three-month period beginning from the effective date of the Agreement Providing for the Amendment and Restatement of the Development Credit Agreement and ending three months thereafter (the First Project Quarter) and any subsequent three-month period thereafter;

(t) "Retrenchment Plan" means the plan dated March 22, 2006, submitted by the Borrower to the Association, outlining its proposed retrenchment program to be implemented under Part A.2 (a) of the Project, as set forth in Schedule 2 of this Agreement;

(u) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;

(v) "Steering Committee" means the committee to be established by the Borrower referred to in paragraph 3 of Section II of Schedule 4 to this Agreement;

(w) "Sub-Component Work Plan" means the work plan prepared annually by the relevant implementing agency of the Borrower for a sub-component of the Project as set forth in Schedule 2 of this Agreement; and

(x) "Subproject" means a specific additional activity within a sub-component approved for financing out of the Performance Incentive Facility in furtherance of the Project's development objectives following the fulfillment of performance monitoring indicators agreed for a Project Quarter by a Project implementing agency.

## **ARTICLE II**

### **The Credit**

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to seventeen million and six hundred thousand Special Drawing Rights (SDR 17,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the

reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower may, for the purposes of the Project, open and maintain in Dollars one separate special deposit account for the Project (hereinafter referred to as Special Account), in a commercial bank, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(c) Promptly after the Effective Date, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advance withdrawn and outstanding as of such date and to pay all unpaid charges thereon. The unwithdrawn balance of the authorized amount of the Project Preparation Advance shall thereupon be cancelled.

Section 2.03. The Closing Date shall be March 1, 2008 or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent (1/2 of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

(c) The commitment charge shall be paid: (i) at such places as the Association shall reasonably request; (ii) without restrictions of any kind imposed by, or in the territory of, the Borrower; and (iii) in the currency specified in this Agreement for the purposes of Section 4.02 of the General Conditions or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to the provisions of that Section.

Section 2.05. The Borrower shall pay to the Association a service charge at the rate of three-fourths of one percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.



Section 2.06. Commitment charges and service charges shall be payable semiannually on January 15 and July 15 in each year.

Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing July 15, 2013 and ending January 15, 2043. Each installment to and including the installment payable on January 15, 2023 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever: (i) the Borrower's per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; and (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and after due consideration by them of the development of the Borrower's economy, modify the repayment of installments under paragraph (a) above by:

- (A) requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid; and
- (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end shall carry out the Project with due diligence and efficiency and in conformity with appropriate financial, technical, administrative and environmental practices, and shall provide promptly as needed the funds, facilities, services and other resources required for the Project; and

(b) without limitation upon the provisions of paragraph (a) of this Section and except as the Borrower and the Association shall otherwise agree, the Borrower shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the sustainability of the Project; and

(b) afford the Association a reasonable opportunity to exchange views with the Borrower on said plan.

### **ARTICLE IV**

#### **Financial Covenants**

Section 4.01. (a) The Borrower shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

- (b) The Borrower shall:
- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Account for each Fiscal Year annually audited, in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association;
  - (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year: (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and report of such audit, by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
  - (iii) furnish to the Association such other information concerning such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section, records and separate accounts reflecting such expenditures;
- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

Section 4.02. (a) Without limitation upon the Borrower's progress reporting obligations, the Borrower shall prepare and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

- (i) sets forth sources and uses of funds for the Project, both cumulatively and for the period covered by said report, showing separately funds provided under the Credit, and explains variances between the actual and planned uses of such funds;
- (ii) describes physical progress in Project implementation, both cumulatively and for the period covered by said report, and explains variances between the actual and planned Project implementation; and
- (iii) sets forth the status of procurement under the Project, as at the end of the period covered by said report.

(b) The first FMR shall be furnished to the Association not later than 45 days after the end of the first calendar quarter after the Effective Date, and shall cover the period from the incurrence of the first expenditure under the Project through the end of such first calendar quarter; thereafter, each FMR shall be furnished to the Association not later than 45 days after each subsequent calendar quarter, and shall cover such calendar quarter.

## **ARTICLE V**

### **Effective Date: Termination**

Section 5.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

- (a) the auditors referred to in Section 4.01 (b) (i) of this Agreement have been appointed in accordance with the provisions of Section II of Schedule 3 to this Agreement;
- (b) the Borrower has adopted the PIP, in form and substance satisfactory to the Association;
- (c) the Borrower has established a financial management system and a procurement management system, in form and substance acceptable to the Association;
- (d) the Borrower has appointed a Project Manager for the FIMTAP Secretariat with experience acceptable to the Association;

(e) the Borrower has appointed a financial management specialist, a procurement specialist and a monitoring and evaluation specialist for the FIMTAP Secretariat, all with experience acceptable to the Association and in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(f) the Borrower has prepared the IFMIS action plan in form and substance satisfactory to the Association; and

(g) the Borrower has opened the Project Account and made the initial deposit referred to in Section 3.04 (b) of this Agreement.

Section 5.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

## **ARTICLE VI**

### **Representative of the Borrower; Addresses**

Section 6.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 6.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

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

Cable address:	Telex:	Facsimile:
FINANCE Lilongwe	44407 MI	(265) 1 789173

For the Association:

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

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

IN WITNESS WHEREOF, the parties hereto, acting through their duly authorized representatives, have caused this Agreement to be signed in their names in the District of Columbia, United States of America, as of the day and year first above written.

REPUBLIC OF MALAWI

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

Authorized Representative

**SCHEDULE 1**

**Withdrawal of the Proceeds of the Credit**

1. The table below sets forth the Categories of items to be financed out of the proceeds of the Credit, the allocation of the amounts of the Credit to each Category and the percentage of expenditures for items so to be financed in each Category:

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Goods	3,720,000	100%
(2) Consultant's services, audits, and training	8,750,000	100%
(3) Operating Costs	3,530,000	100%
(4) Refunding of Project Preparation Advance	217,421	Amount due pursuant to Section 2.02 (c) of this Agreement
(5) Unallocated	842,579	100%
(6) Subprojects	330,000	100%
(7) Severance Payments under Part A.2 (a) of the Project	210,000	100%
TOTAL	<u>17,600,000</u> =====	

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;



(b) the term “local expenditures” means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) the term “Operating Costs” means: (i) the incremental expenses incurred by the Borrower on account of the Project implementation for the maintenance of the FIMTAP Secretariat and the Steering and Technical Committees, including information systems, office supplies and maintenance, office support staff, per diem, maintenance of equipment, office rent, and telephone and other communication charges, but excluding salaries of officials of the Borrower; or (ii) with respect to Part A.2 (b) of the Project, termination benefits of locally recruited foreign mission staff who are not staff of the Borrower’s public service, reasonable maintenance costs of foreign mission buildings, and reasonable repatriation costs pertaining to travel, shipping, subsistence and resettlement allowances.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement, except that withdrawals in an aggregate amount not exceeding the equivalent of SDR8,000, may be made on account of payment made for expenditures before that date but after March 1, 2003.

4. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of the Agreement Providing for the Amendment and Restatement of the Development Credit Agreement except that withdrawals in an aggregate amount not exceeding the equivalent of SDR 2,450,000 may be made in respect of Categories 2, 3 and 7 on account of payments made for expenditures before that date but after May 1, 2005.

5. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) goods under contracts costing less than \$100,000 equivalent; (ii) services from consultant firms under contracts costing less than \$100,000 equivalent; (iii) services from individual consultants under contracts costing less than \$50,000 equivalent; (iv) training; (v) Operating Costs; (vi) Subprojects; and (vii) severance payments, under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objective of the Project is to assist the Borrower to improve civil service and public expenditure management for better allocation and utilization of public resources.

The Project consists of the following parts, subject to such modifications thereof as the Borrower and the Association may agree upon from time to time to achieve such objectives:

Part A: Public Service Management and Right-sizing

1. Public Service Management

(a) Performance Contracting Strengthening the Borrower's performance contracting system by (i) implementing performance contracting guidelines and procedures including the carrying out of annual performance reviews for all public servants employed on contracts and monitoring of such implementation; and (ii) establishing dispute resolution procedures, all through the provision of technical advisory services.

(b) Personnel Audit Carrying out of establishment audits to determine the functional establishments required for all of the Borrower's ministries, departments and agencies, through the provision of technical advisory services.

(c) Strategic Planning Strengthening the Borrower's strategic planning ability through: (i) development of strategic plans for its ministries; (ii) capacity building of the relevant staff of the Borrower; (iii) establishment of linkages between strategic planning, budget development and execution processes, and service delivery strategies; and (iv) carrying out of annual progress reviews on the development, implementation and effectiveness of strategic plans in association with the MTEF cycle, all through the provision of technical advisory services.

(d) Human Resource Management Information System (HRMIS)

Implementation of an efficient human resource management information system to improve: (i) payroll systems and establishment controls to ensure conformity with budgeted public service establishments; (ii) wage bill control and eliminate payroll related fraud and irregularities; and (iii) public service human resource record management, all through the provision of technical advisory services.

(e) Economic Policy Support Provision of economic policy support to the Borrower's MOF to: (i) improve information flows on debt and aid; (ii) monitor and

report on donor disbursements and project implementation; (iii) enhance negotiating skills on economic policy issues; and (iv) carry out economic policy research, all through the provision of technical advisory services.

(f) Capacity Building Facility Establishment of a Capacity Building Facility for training of staff of the Borrower's ministries, departments and agencies on public sector management skills supporting accountability, such as financial management, procurement, records management, information technology, strategic management, data analysis, project management, leadership skills and human resource management.

2. Public Service Right-sizing

(a) Implementation of a retrenchment program for senior public servants as set out in the Retrenchment Plan, through the financing of severance packages.

(b) Rationalization of the Borrower's foreign missions by: (i) closing down its missions in Paris, Ottawa, Nairobi and Tripoli; and (ii) reducing staff by repatriating approximately twenty-three staff of the Ministry of Foreign Affairs in Tokyo, Addis Ababa, Pretoria, Johannesburg, Maputo, Lusaka, New York, London, Harare, Cairo, Brussels, Dar es Salaam, and Washington D.C, all through the financing of related Operating Costs.

Part B: Improving Expenditure Management

1. IFMIS

Provide limited support for the development of the IFMIS physical infrastructure through the acquisition of goods.

2. GWAN

(a) Expansion of the Borrower's computer network by: (i) installing fiber optic network cables between Capital Hill and the City Center in Lilongwe; (ii) installing wireless local area network (LANS) equipment consisting of transceivers connected via ethernet cables to servers or other segments of the network outside Lilongwe; and (iii) installing radio, microwave and laser technologies systems to complement the wireless network in the other regions in the territory of the Borrower, all through the provision of technical advisory services and acquisition of goods.

(b) installation and operation of uninterruptible power supply (UPS) units and generators to provide electrical power to computer and other devices during power

shortage or irregularities, through the provision of technical advisory services, and acquisition of goods.

(c) installation of virus detection computer software, and design and implementation of computer hardware and software security systems, through the provision of technical advisory services, and acquisition of computer software and equipment.

(d) provision of training to DISTMS staff and establishment of management units to oversee the utilization, standards and maintenance of GWAN, through the provision of technical advisory services.

### 3. Internal Audit

(a) Strengthening the Borrower's internal audit function through the establishment of an internal audit department and its respective manuals, terms of reference and operating guidelines, through the provision of technical advisory services, and acquisition of computer software and equipment.

(b) carrying out of a training needs assessment and provision of training on basic audit, information technology, management, report writing and investigation.

(c) design and implementation of a governance structure that provides for improved internal processes and procedures, through the provision of technical advisory services.

(d) establishment of an internal audit committee, including the development of terms of reference, a manual and operating guidelines, through the provision of technical advisory services.

### 4. Public Procurement Capacity Building

Provision of support to the Borrower's Office of the Director of Public Procurement (ODPP) through: (a) the establishment of a management information system and website for public procurement; (b) monitoring of the implementation of the Borrower's Public Procurement Act in at least forty percent (40%) of the Borrower's government entities; (c) finalization of legislation on asset management and related storage instructions and manuals; (d) capacity building of *inter alia* the ODPP in its core areas of operation, internal procurement committees (IPCs), and specialized procurement units (SPUs); (e) implementation of a basic procurement training program to develop a cadre of procurement specialists to address procurement matters in IPCs and SPUs of government entities; (f) facilitation of the establishment of a professional body for procurement personnel; and (g) capacity building in undertaking procurement audits in selected government entities.

Part C:            Performance Incentive Facility

Establishment of a Performance Incentive Facility for the financing of Subprojects.

Part D:            Project Management

Supporting the administration, coordination, monitoring and evaluation, and supervision of the Project by the FIMTAP Secretariat staff and the Project's Technical, Steering and Financial Management Sub-Committees through the provision, as the case may be, of technical advisory service, training, goods and Operating Costs.

\* \* \*

The Project is expected to be completed by September 1, 2007.

### **SCHEDULE 3**

#### **Procurement**

Section I.      Procurement of Goods

Part A:        General

Goods shall be procured in accordance with the provisions of Section I of the “Guidelines for Procurement under IBRD Loans and IDA Credits” published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

Part B:        International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

2. The following provisions shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

(a)      Grouping of contracts

To the extent practicable, contracts for goods shall be grouped in bid packages estimated to cost \$100,000 equivalent or more each.

(b)      Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower.

Part C:        Other Procurement Procedures

1.      National Competitive Bidding

Goods estimated to cost less than \$250,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract may be procured under contracts awarded on the basis of international or national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Direct Contracting

Goods which should be procured as an extension of an existing contract or must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature or must be procured from a particular supplier as a condition of a performance guarantee and costing \$1,000,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Procurement from UN Agencies

Office equipment and spare parts estimated to cost less than \$150,000 equivalent per contract may be procured from IAPSO in accordance with the provisions of paragraph 3.9 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with the provisions of Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits and technical services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.



2. Selection Based on Consultants' Qualifications

Services estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.7 of the Consultant Guidelines.

3. Single Source Selection

Services which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

Services for IFIMIS which are estimated to cost less than \$1,000,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

4. Individual Consultants

Services of individual consultants for tasks that meet the requirements set forth in paragraph 5.1 of the Consultant Guidelines shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants to be selected on a sole source basis, or estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, the qualifications, experience, terms of reference and terms of employment of

the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

## SCHEDULE 4

### Implementation Program

#### Section I. Project Monitoring and Evaluation

1. The Borrower shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 6 to this Agreement the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about August 1, 2005, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by October 1, 2005, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and, thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

2. Compliance Audits

Without limitation to the provisions of Article 4 of this Agreement, the Borrower shall ensure that semi-annual audits are carried out for purposes of checking on *inter alia* internal control systems, compliance with the financial covenants set forth herein, the usage of statements of expenditure, and the operation of the Special Account. The said audits shall be carried out in accordance with auditing standards acceptable to the Association, consistently applied, by independent auditors acceptable to the Association. The semi-annual audit reports will be furnished to the Association no later than two (2) months after the end of the relevant six month period. The said semi-annual audits may be carried out by NAO, or if it is jointly determined, that NAO cannot carry out the separate semi-annual audits in a timely fashion, they may be carried out by qualified consultants hired by NAO under terms of reference that are acceptable to the Association.

Section II. Project Oversight and Administration

3. Steering Committee. The Borrower shall maintain until completion of the Project the Steering Committee under terms of reference and with membership satisfactory to the Association. The Steering Committee shall provide oversight for the Project and regularly review progress in Project implementation.

4. Financial Management Sub-Committee. The Borrower shall maintain until completion of the Project the Financial Management Sub-Committee under terms of reference and with membership satisfactory to the Association to oversee the financial management of the Project. The Financial Management Sub-Committee shall comprise representatives of MOF, Office of the President and Cabinet, Office of the Accountant General, NAO and representatives of professional organizations in the territory of the Borrower.

5. Technical Committee. The Borrower shall maintain the Technical Committee until the completion of the Project under terms of reference and with membership that is satisfactory to the Association to *inter alia*: (a) ensure the effective management of resources under the Project; (b) assist with the preparation of Sub-component Work Plans for consolidation by the FIMTAP Secretariat into Annual Work Plans; and (c) monitor and evaluate Project implementation including the preparation of quarterly and annual progress reports. The Technical Committee shall comprise the Sub-component managers.

6. FIMTAP Secretariat. The Borrower shall maintain the FIMTAP Secretariat in the Office of the President and Cabinet, with the following staff: a Project Manager, financial management specialist, a procurement specialist and a monitoring and evaluation specialist. The FIMTAP Secretariat shall be responsible for *inter alia*: (a) ensuring the timely and appropriate procurement of all technical assistance, equipment, training and related services required for the successful implementation of the Project; (b) ensuring the timely identification and resolution of Project implementation issues; (c) evaluating the overall performance of the Project as a whole and on an individual component basis; (d) preparing progress reports; (e) maintaining financial records; and (f) preparing Annual Work Plans.

7. Project Implementation Plan. The Borrower shall implement the Project in accordance with the PIP, and except as the Association shall otherwise agree, shall not amend or waive any provisions of the PIP if such amendment or waiver would in the opinion of the Association materially or adversely affect Project implementation.

Section III. Training

8. The Borrower shall carry out all training under the Project in accordance with a training plan approved by the Association, which shall include, *inter alia*: (a) the training, workshops or study tours proposed; (b) the personnel to be trained; (c) the institutions

which will carry out the training; (d) the duration of the proposed training; and (e) the estimated costs of the training.

9. The Borrower shall submit all terms of references for support to training institutions under the Capacity Building Facility to the Association for prior review.

Section IV. Annual Work Plans

10. The FIMTAP Secretariat shall not later than June 30 of each Fiscal Year during the implementation of the Project or such later date as the Association may agree prepare and furnish to the Association for its approval an Annual Work Plan to be carried out in the following Fiscal Year, modifying such plan in such manner as shall be satisfactory to the Association.

Section V. Performance Incentive Facility

11. (a) Following successful fulfillment of the performance monitoring indicators set forth in the Annual Work Plan for each Project Quarter, the relevant ministry, department or agency of the Borrower responsible for the implementation of a particular Project sub-component may submit a Subproject proposal for the approval of the FIMTAP Secretariat. The Project's monitoring and evaluation specialist shall monitor the fulfillment of all the performance monitoring indicators for each Project Quarter and prepare a quarterly monitoring and evaluation report for submission to the Project manager, the Association and the Steering Committee on which basis the approval of a Subproject for funding shall be made by the chairperson of the Steering Committee based on the recommendations of the Project Manager.

(b) Each Subproject shall be financed on a grant basis and shall be for an amount that shall not exceed \$5,000. All Subprojects must be in furtherance of the Project's objectives and all goods and services financed must be procured in accordance with the Association's procurement procedures as set forth in Schedule 3 of this Agreement.

(c) The FIMTAP Secretariat shall report to the Steering Committee and the Technical Committee on a quarterly basis on progress made in the financing of Subprojects under the Performance Incentive Facility.

## **SCHEDULE 5**

### **Special Account**

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3), (6) and (7) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;
  - (b) the term “eligible expenditures” means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and
  - (c) the term “Authorized Allocation” means an amount equivalent to \$2,000,000 in respect of the Special Account, to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,000,000 until the aggregate amount of withdrawals from the Credit Account plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall be equal to or exceed the equivalent of SDR10,000,000.
2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.
3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.
  - (b)
    - (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify; and
    - (ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the

payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the eligible Categories, and in the equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b) (ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and Account for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories for the Special Account for the Project, minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all

such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of any Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in any Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Borrower may, upon notice to the Association, refund to the Association all or any portion of the funds on deposit in the Special Account.

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.



## **SCHEDULE 6**

### **Performance Indicators**

1. Annual performance reviews carried out for all public servants under contract.
2. Completion of personnel audits for all ministries.
3. All ministries, departments and agencies of the Borrower provide input to the budget development process based on strategic plans reviewed annually in coordination with the MTEF.
4. Officers occupying positions identified as redundant are retrenched in accordance with the approved Retrenchment Plan.
5. Trade and commercial functions in at least four major foreign missions enhanced.
6. HRMIS system operational in all ministries.
7. Economic advisory services in the Ministry of Finance, especially to the Minister of Finance, are enhanced.
8. Installation of three back-up generator sets for the IFMIS network.
9. All staff at Director level and above in ministries, departments and agencies of the Borrower have full access to the HRMIS, intranet and email through the GWAN.
10. Procurement audits verify that at least forty percent (40%) of the Borrower's procurement entities are correctly implementing the provisions of the Public Procurement Act.
11. Internal audit facilitates improvements in internal expenditure controls in at least five ministries.
12. The Capacity Building Facility trains at least one hundred civil servants to maintain improvements and reforms made in expenditure and public sector management.
13. Quarterly performance targets for the Project sub-components as reflected in the Annual Work Plan are met at least seventy-five percent (75%) of the time on average following implementation of the Performance Incentive Facility.
14. Efficient and effective management of FIMTAP's financial management, procurement, monitoring and evaluation, component and sub-component coordination and reporting functions by the FIMTAP Secretariat.

