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**GRANT NUMBER E3990-MW  
and  
AMENDMENT TO GRANT NUMBER D598-MW**

# **Financing Agreement**

**(Additional Financing for Malawi Governance to Enable Service Delivery Project)**

**between**

**REPUBLIC OF MALAWI**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

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## **FINANCING AGREEMENT**

AGREEMENT dated as of the Signature Date between the REPUBLIC OF MALAWI (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”). 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) apply to and form part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

### **ARTICLE II — FINANCING**

- 2.01. The Association agrees to extend to the Recipient a grant, which is deemed as Concessional Financing for purposes of the General Conditions, in an amount equivalent to twenty-six million six hundred thousand Special Drawing Rights (SDR 26,600,000) (“Financing”), to assist in financing the project described in Schedule 1 to this Agreement (“Project”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in accordance with Section III of Schedule 2 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate is one-half of one percent (1/2 of 1%) per annum on the Unwithdrawn Financing Balance.
- 2.04. The Payment Dates are March 15 and September 15 in each year.
- 2.05. The Payment Currency is 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 the Project in accordance with the provisions of Article V of the General Conditions and Schedule 2 to this Agreement.

### **ARTICLE IV — EFFECTIVENESS; TERMINATION**

- 4.01. The Additional Condition of Effectiveness consists of the following, namely, the Project Implementation Manual has been updated in accordance with the provisions in Section I.B.1 of Schedule 2 to this Agreement.

- 4.02. The Effectiveness Deadline is the date ninety (90) days after the Signature Date.
- 4.03. For purposes of Section 10.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for payment obligations) shall terminate is twenty (20) years after the Signature Date.

**ARTICLE V — REPRESENTATIVE; ADDRESSES**

- 5.01. The Recipient's Representative is its minister responsible for finance.
- 5.02. For purposes of Section 11.01 of the General Conditions:

- (a) the Recipient's address is:

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

- (b) the Recipient's Electronic Address is:

Telex:	Facsimile:	E-mail:
44407	265-1-789173	stfinance@finance.gov.mw

- 5.03. For purposes of Section 11.01 of the General Conditions:

- (a) the Association's address is:

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

- (b) the Association's Electronic Address is:

Telex:	Facsimile:
248423 (MCI)	1-202-477-6391

AGREED as of the Signature Date.

**REPUBLIC OF MALAWI**

**By**

*Simplex Chithyola Banda, M.P.*

**Authorized Representative**

**Name:** Simplex Chithyola Banda, M.P.

**Title:** Hon Minister of Finance and Economic Affairs

**Date:** 03-oct-2024

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**By**



**Authorized Representative**

**Name:** FIRAS RAAD

**Title:** Country Manager

**Date:** 25-Sep-2024

## **SCHEDULE 1**

### **Project Description**

The objective of the Project is to: (a) strengthen Local Authorities' institutional performance, responsiveness to citizens and management of resources for service delivery; and (b) in case of an Eligible Crisis or Emergency, respond promptly and effectively to it.

The Project consists of the following parts:

#### **Part 1: Performance-Based Financing for Service Delivery**

Carry out the following to stabilize and augment the flow of development financing to Local Authorities, thereby enabling more predictable and transparent planning and implementation of investment projects:

1. Provision of performance-based grants ("PBGs") to selected Local Authorities ("PBG Beneficiaries") to carry out investment subprojects, which are identified in the Local Authority Annual Investment Plan and satisfy specified criteria ("PBG Subprojects").
2. Carry out, in a credible and objective manner, an annual performance assessment of Local Authorities ("Local Authority Performance Assessment" or "LAPA") and use the results to determine the eligibility for, and amount of, the PBG for each Local Authority.

#### **Part 2: Strengthening Intergovernmental Accountability Systems**

Carry out the following to improve intergovernmental accountability systems:

1. Strengthen service delivery financing through fiscal decentralization, including: (a) provision of technical assistance, skills enhancement, and development of digital systems to improve efficiency and transparency in administration of, and reporting on Intergovernmental Fiscal Transfer Systems; (b) carrying out analytical work and policy dialogue in support of the medium-term fiscal decentralization strategy and outcomes; and (c) strengthening of relevant ministries, departments, and agencies by providing technical assistance, to carry out cross-country learning, and stakeholder consultations.
2. Strengthen the accountability of Local Authorities through external audit, and supporting the National Audit Office in conducting timely financial audits of local government financial statements.

#### **Part 3: Local Authority Performance Improvement Support**

Carry out the following to enhance local government capabilities:

1. Support efforts to ensure that Local Authorities are sufficiently staffed with capable personnel to perform a set of core functions, including carrying out periodic reviews of core functions and corresponding positions, carrying out reviews of LA staffing and vacancy rates against said positions, development of annual costed plans for filling core positions; and financing of implementation costs (not recurrent costs) of the promotion and recruitment processes.
2. Provision of support to develop a systematic approach to the identification, preparation and delivery of performance improvement support to LA officials and other local stakeholders targeted to enhance functional capabilities measured by the LAPA, including: (a) development and delivery of performance improvement plans (“PIPs”); (b) piloting a demand-driven grant for performance improvement (“GPI”); and (c) piloting a system for strengthening the internal audit function in LAs by the Central Internal Audit Unit.
3. Carry out the following to support capacity building and mechanisms to promote deliberative dialogue and accountability between citizens, CSOs, and local government: (a) institutionalizing citizen engagement in LA service delivery by, *inter alia*, development and implementation of detailed guidelines laying out the roles and obligations of relevant central ministries, departments and agencies, local councils, the council secretariat, CSOs and individual citizens at each stage of the annual budget, project selection and implementation cycle; and establishment of partnerships between LAs, CSOs and media to disseminate information about LAPA results, budgets, investment plans and Project implementation; (b) develop and operationalize a national platform (interactive web-based platform) for citizen engagement in local service delivery; and (c) develop a facility to support strategic partnerships between government (national and district-level) and CSOs that seek to scale up proven social accountability initiatives.

#### **Part 4: Adaptive Management and Innovation Support**

Carry out the following to provide support for Project coordination and adaptive learning and innovation:

1. Provision of technical assistance and goods, and financing of Operating Costs and Training, all to support NLGFC in managing and implementing the Project and the Project Steering Committee in providing Project implementation guidance.
2. Provision of technical assistance and goods, and financing of Operating Costs and Training, all to support a program of learning and evaluation to test results of the Project design and theory of change and to provide for evidence-based adaptation.

#### **Part 5: Contingency Emergency Response Component**

Providing immediate response to an Eligible Crisis or Emergency, as needed.

## SCHEDULE 2

### Project Execution

#### Section I. Implementation Arrangements

##### A. Institutional Arrangements

###### *Project Steering Committee*

1. The Recipient shall establish within two (2) months from the Effective Date and thereafter, maintain at all times during the implementation of the Project, the Project Steering Committee with a mandate, composition and resources satisfactory to the Association and responsible, at the central government level, for providing overall policy guidance for, and supervision of, Project implementation.

###### *Project Technical Committee*

2. The Recipient shall establish within two (2) months from the Effective Date and thereafter, maintain at all times during the implementation of the Project, the Project Technical Committee with a mandate, composition and resources satisfactory to the Association and responsible and responsible for coordinating Project implementation across all relevant ministries, departments and agencies at the central government level.

###### *National Local Government Finance Committee ("NLGFC")*

3. The Recipient:
  - (a) has designated NLGFC as the implementing agency for the Project and responsible:
    - (i) for overall Project management, implementation and coordination implementation of Project activities; and
    - (ii) for specific Project implementation unit functions, including appointing a senior officer in the NLGFC to act as overall Project Coordinator responsible for day-to-day implementation of the Project, and to oversee a team assembled and responsible for financial management, procurement, monitoring and evaluation, reporting and safeguards for the Project; and
  - (b) shall ensure that NLGFC: (i) maintains, at all times during the implementation of the Project, the implementation arrangement described in subparagraph (a)(ii) of this paragraph 3 with a mandate, composition and resources satisfactory to the Association with responsibility for day-

to-day implementation of the Project; and (ii) within three (3) months from the Signature Date, hires a dedicated Project procurement specialist with qualifications, experience, and terms of reference satisfactory to the Bank.

**B. Project Implementation Manual (“PIM”)**

1. The Recipient shall:
  - (a) draft, and furnish to the Association for approval, an updated Project Implementation Manual which contains detailed guidelines and procedures for the implementation of the Project, including: administration and coordination; monitoring and evaluation; financial; procurement and accounting procedures; social and environmental safeguards; corruption and fraud mitigation measures; grievance mechanism; roles and responsibilities of various agencies in the implementation of Project; eligibility criteria and procedures for selection of PBG Beneficiaries, GPI Beneficiaries, PBG Subprojects and GPI Subprojects and provision of PBG and GPI; standards and methodology for carrying out LAPGA, and such other arrangements and procedures as shall be required for the effective implementation of the Project;
  - (b) upon approval of the Association of the PIM, the Recipient shall adopt and thereafter implement the Project in accordance with the PIM; and
  - (c) not amend, abrogate, waive, or permit to be amended, abrogated, or waived, the PIM, or any provision thereof, without the prior written consent of the Association.
2. In the event of any conflict between the provisions of the PIM and those of this Agreement, the provisions of this Agreement shall prevail.

**C. Annual Work Plan and Budget (“AWPB”)**

1. Not later than December 31 in each Fiscal Year (or one (1) month after the Effective Date for the first year of Project implementation), the Recipient shall prepare or cause to be prepared for the purpose of forwarding to the Association: (i) a draft annual work plan and budget for the Project (including Training and Operating Costs) for the subsequent Fiscal year of Project implementation, of such scope and detail as the Association shall have reasonably requested; and (ii) a description of the instruments required by the ESMF and/or RPF for the implementation of the activities and the proposed budget for implementation of said instruments, all to be included in the draft annual work plan and budget.
2. The Recipient shall afford the Association a reasonable opportunity to review such draft annual work plan and budget, and thereafter, shall carry out (or cause to be



carried out) such annual work plan and budget during such subsequent calendar year as shall have been approved by the Association (“AWPB”). Only those activities that are included in the AWPB shall be eligible for financing out of the proceeds of the Financing.

3. Any training proposed to be included in an AWPB, shall set out particulars of the training envisaged, including, *inter alia*: (a) the purpose and justification for such training; (b) the criteria for selection of the personnel to be trained; (c) the selection method to be used for the institution or individuals conducting such training; (d) the location and duration of such training; and (e) the estimated cost of such training.
4. The AWPB may be revised as needed during Project implementation subject to the Association’s prior written approval.

**D. Performance-based Grants (“PBG”)**

1. With respect to Part 1.1 of the Project, the Recipient shall make a PBG to a PBG Beneficiary to carry out a PBG Subproject in accordance with eligibility criteria and procedures acceptable to the Association, as more particularly set out in the PIM, which shall include the requirement that no proposed PBG Subproject shall be eligible for financing under a PBG unless the Recipient shall have determined on the basis of an appraisal carried out in accordance with guidelines acceptable to the Association and elaborated in the PIM, that:
  - (a) a Local Authority has satisfied all minimum access conditions and targets defined in the PIM in order to qualify as a PBG Beneficiary and a selected PBG Beneficiary may receive a PBG in an amount allocated based on: (i) application of a basic equitable needs-based formula; (ii) the PBG’s performance, as determined through the LAPA process; and
  - (b) the proposed PBG Subproject: (i) consists of specific development activities set forth in Parts 1.1 of the Project as further elaborated in the PIM complies with all applicable laws and regulations of the Recipient; and (ii) if, pursuant to the ESMF, a Subproject ESIA, Subproject ESMP and/or Subproject RAP are required, such Safeguards Instruments have been prepared and approved by the Association in accordance with the ESMF and all measures required to be carried out under the Safeguards Instruments and/or prior to commencement of the activities covered by the Safeguards Instruments have been carried out.
2. The Recipient shall make each PBG under a PBG Agreement with the respective PBG Beneficiary on terms and conditions approved by the Association, which shall include the following:

- (a) The PBG shall be made on a grant basis without any fees payable thereon.
  - (b) The Recipient shall obtain rights adequate to protect its interests and those of the Association, including the right to:
    - (i) suspend or terminate the right of the PBG Beneficiary to use the proceeds of the PBG, obtain a refund of all or any part of the amount of the PBG then withdrawn, upon the PBG Beneficiary's failure to perform any of its obligations under the PBG Agreement; and
    - (ii) require each PBG Beneficiary to: (A) carry out its PBG Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods, works and services to be financed out of the PBG in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the PBG Subproject and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the PBG Subproject; and (2) at the Association's or the Recipient's request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the statements as so audited to the Recipient and the Association; (F) enable the Recipient and the Association to inspect the Subproject, its operation and any relevant records and documents; and (G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.
3. The Recipient shall exercise its rights under each PBG Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any PBG Agreement or any of its provisions.

**E. Grant for Performance Improvement (“GPI”)**

1. With respect to Part 3.2(b) of the Project, the Recipient shall pilot the provision of demand-driven grants to selected Local Authorities (“GPI Beneficiaries”) for their performance improvement (“GPI”) based on their performance improvement plan (“GPI Subproject”), all in accordance with eligibility criteria and procedures acceptable to the Association, as more particularly set out in the PIM.
2. The Recipient shall make each GPI under a GPI Agreement with the respective GPI Beneficiary on terms and conditions approved by the Association, which shall include the following:
  - (a) The GPI shall be made on a grant basis without any fees payable thereon.
  - (b) The Recipient shall obtain rights adequate to protect its interests and those of the Association, including the right to:
    - (i) suspend or terminate the right of the GPI Beneficiary to use the proceeds of the GPI, obtain a refund of all or any part of the amount of the GPI then withdrawn, upon the GPI Beneficiary’s failure to perform any of its obligations under the GPI Agreement; and
    - (ii) require each GPI Beneficiary to: (A) carry out its GPI Subproject with due diligence and efficiency and in accordance with sound technical, economic, financial, managerial, environmental and social standards and practices satisfactory to the Association, including in accordance with the provisions of the Anti-Corruption Guidelines applicable to recipients of loan proceeds other than the Recipient; (B) provide, promptly as needed, the resources required for the purpose; (C) procure the goods and services to be financed out of the GPI in accordance with the provisions of this Agreement; (D) maintain policies and procedures adequate to enable it to monitor and evaluate in accordance with indicators acceptable to the Association, the progress of the GPI Subproject and the achievement of its objectives; (E) (1) maintain a financial management system and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, both in a manner adequate to reflect the operations, resources and expenditures related to the GPI Subproject; and (2) at the Association’s or the Recipient’s request, have such financial statements audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association, and promptly furnish the

statements as so audited to the Recipient and the Association;  
(F) enable the Recipient and the Association to inspect the Subproject, its operation and any relevant records and documents;  
and (G) prepare and furnish to the Recipient and the Association all such information as the Recipient or the Association shall reasonably request relating to the foregoing.

3. The Recipient shall exercise its rights under each GPI Agreement in such manner as to protect the interests of the Recipient and the Association and to accomplish the purposes of the Grant. Except as the Association shall otherwise agree, the Recipient shall not assign, amend, abrogate or waive any GPI Agreement or any of its provisions.

**F. Safeguards**

*ESMF and RPF*

1. The Recipient shall ensure that:
  - (a) the Project is carried out with due regard to appropriate health, safety, social, and environmental practices and standards, and in accordance with the Safeguards Instruments;
  - (b) for each activity under the Project for which the ESMF, and the RPF provide for the preparation of a Subproject ESIA, and/or a Subproject ESMP, and a Subproject RAP:
    - (i) proceed to have such Subproject ESIA, and/or Subproject ESMP and Subproject RAP as appropriate: (A) prepared and disclosed in accordance with the ESMF and the RPF, respectively; (B) consulted upon adequately with people affected by the Project as per the ESMF and the RPF, respectively, and submitted to the Association for review and approval; and (C) thereafter adopted, prior to implementation of the activity; and
    - (ii) take such measures as shall be necessary or appropriate to ensure compliance with the requirements of such Subproject ESIA, and/or Subproject ESMP and Subproject RAP in a manner satisfactory to the Association;
  - (c) all measures are taken to implement the Subproject RAPs in a manner and timeframe satisfactory to the Association. To this end, the Recipient shall ensure that:
    - (i) funds are made available to cover all the costs of implementing the Subproject RAPs;

- (ii) prior to carrying out activities which involve displacement, Affected Persons shall be compensated at full replacement cost, resettled and provided with assistance in accordance with the Subproject RAPs, as applicable; and
  - (iii) the implementation, monitoring and evaluation of such Subproject RAPs is completed and reported in a manner satisfactory to the Association.
- 2. The Recipient shall ensure that the Subprojects do not include any activities or expenditures on the negative list set forth in the PIM and ESMF.
- 3. Except as the Association shall otherwise agree in writing, the Recipient shall ensure that none of the provisions of the Safeguard Instruments be abrogated, amended, repealed, suspended or waived. In case of any inconsistencies between the provisions of any of the Safeguard Instruments and the provisions of this Agreement, the provisions of this Agreement shall prevail.

*Technical Assistance*

- 4. The Recipient shall ensure that: (a) all consultancies related to technical assistance, design and capacity building under the Project, the application of whose results could have environmental, social and health and safety implications, shall only be undertaken pursuant to terms of reference reviewed and found satisfactory by the Association; and (b) such terms of reference shall require the technical assistance, design and capacity building activities to take into account the requirements of the applicable Safeguards Policies and EHS Guidelines.

*Monitoring and Reporting*

- 5. Without limitation upon its other reporting obligations under this Agreement, the Recipient shall:
  - (a) take all measures necessary on its part to regularly collect, compile, and submit to the Association promptly in a separate quarterly FY report, information on the status of compliance with the Safeguards Instruments, all such reports in form and substance acceptable to the Association, setting out, *inter alia*: (i) the status of implementation of the Safeguards Instruments; (ii) conditions, if any, which interfere or threaten to interfere with the implementation of the Safeguards Instruments; and (iii) corrective and preventive measures taken or required to be taken to address such conditions; and
  - (b) promptly notify the Association of any incident or accident related to or having an impact on the Project which has, or is likely to have, a significant

adverse effect on the environment, the affected communities, and/or the public or workers.

*Grievance Mechanism*

6. The Recipient shall maintain, throughout Project implementation, and publicize the availability of a grievance mechanism, in form and substance satisfactory to the Association, to hear and determine fairly and in good faith all complaints raised in relation to the Project, and take all measures necessary to implement the determinations made by such mechanism in a manner satisfactory to the Association.

**G. Contingent Emergency Response**

1. In order to ensure the proper implementation of contingent emergency response activities under Part 5 of the Project (“Contingent Emergency Response Part”), the Recipient shall ensure that:
  - (a) a manual (“CERC Manual”) is prepared and adopted in form and substance acceptable to the Association, which shall set forth detailed implementation arrangements for the Contingent Emergency Response Part, including: (i) any structures or institutional arrangements for coordinating and implementing the Contingent Emergency Response Part; (ii) specific activities which may be included in the Contingent Emergency Response Part, Eligible Expenditures required therefor (“Emergency Expenditures”), and any procedures for such inclusion; (iii) financial management arrangements for the Contingent Emergency Response Part; (iv) procurement methods and procedures for the Contingent Emergency Response Part; (v) documentation required for withdrawals of Financing amounts to finance Emergency Expenditures; (vi) a description of the environmental and social assessment and management arrangements for the Contingent Emergency Response Part; and (vii) a template Emergency Action Plan;
  - (b) the Emergency Action Plan is prepared and adopted in form and substance acceptable to the Association;
  - (c) the Contingent Emergency Response Part is carried out in accordance with the CERC Manual and the Emergency Action Plan; provided, however, that in the event of any inconsistency between the provisions of the CERC Manual or the Emergency Action Plan and this Agreement, the provisions of this Agreement shall prevail; and

- (d) neither the CERC Manual or the Emergency Action Plan is amended, suspended, abrogated, repealed or waived without the prior written approval by the Association.
- 2. The Recipient shall ensure that the structures and arrangements referred to in the CERC Manual are maintained throughout the implementation of the Contingent Emergency Response Part, with adequate staff and resources satisfactory to Association.
- 3. The Recipient shall ensure that:
  - (a) the environmental and social instruments required for the Contingent Emergency Response Part have been prepared, disclosed and adopted in accordance with the CERC Manual, and in form and substance acceptable to the Association; and
  - (b) the Contingent Emergency Response Part is carried out in accordance with the environmental and social instruments in a manner acceptable to the Association.
- 4. Activities under the Contingency Emergency Response Part shall be undertaken only after an Eligible Crisis or Emergency has occurred.

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

The Recipient shall furnish to the Association each Project Report not later than two (2) months after the end of each Fiscal Year, covering the Fiscal Year.

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

**A. General**

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

<b>Category</b>	<b>Amount of the Grant Allocated (expressed in SDR)</b>	<b>Additional Financing Amount of the Grant Allocated (expressed in SDR)</b>	<b>Percentage of Expenditures to be Financed (inclusive of Taxes)</b>
(1) Goods, works, non-consulting services, and consulting services Operating Costs and Training for Part 1.1 of the Project as follows:			
(a) For the first full FY in which the Project is implemented	5,100,000	0	100%
(b) For the second FY in which the Project is implemented	9,730,000	0	100%
(c) For the third FY in which the Project is implemented	14,585,000	0	100%
(d) For the fourth FY in which the Project is implemented	939,000	7,290,000	100%
(e) For the fifth FY in which the Project is implemented	0	14,585,000	100%
(2) Goods, works, non-consulting services, consulting services, Operating Costs and Training for the Project with the exclusion of Part 1.1 of the Project.	16,195,000	4,725,000	100%
(3) Refund of Preparation Advance	690,000	0	Amount payable pursuant to Section 2.07 (a) of the General Conditions
(4) Emergency Expenditures	25,661,000	0	100%
<b>TOTAL AMOUNT</b>	<b>72,900,000</b>	<b>26,600,000</b>	



**B. Withdrawal Conditions; Withdrawal Period**

1. Notwithstanding the provisions of Part A above, no withdrawal shall be made:
  - (a) for payments made prior to the Signature Date; or
  - (b) under Category 1(a) unless and until: (i) the amount of funds allocated to the DDF in the approved budget for FY 2020-2021 is, at a minimum, equivalent to MWK 3.2 billion as per the 2019-2020 financial year budget, adjusted by CPI; and (ii) 100% of the amount referred to in (i) is disbursed by the end of the first month of the fourth quarter of FY 2020-2021; or
  - (c) under Category 1(b) unless and until: (i) the amount of funds allocated to the DDF in the approved budget for FY 2021-2022 is, at a minimum, equivalent to the amount in the 2020-2021 financial year budget, adjusted by CPI; and (ii) 100% of the amount referred to in (i) is disbursed by the end of the first month of the fourth quarter of FY 2021-2022; or
  - (d) under Category 1(c) unless and until: (i) the amount of funds allocated to the DDF in the approved budget for FY 2022-2023 is, at a minimum, equivalent to the amount in the 2021-2022 financial year budget, adjusted by CPI; and (ii) 100% of the amount referred to in (i) is disbursed by the end of the first month of the fourth quarter of FY 2022-2023; or
  - (e) under Category 1(d) unless and until: (i) the amount of funds allocated to the DDF in the approved budget for FY 2023-2024 is, at a minimum, equivalent to the amount in the 2022-2023 financial year budget, adjusted by CPI; and (ii) 100% of the amount referred to in (i) is disbursed by the end of the first month of the fourth quarter of FY 2023-2024.
  - (f) under Category 1(e) unless and until: (i) the amount of funds allocated to the DDF in the approved budget for FY 2024-2025 is, at a minimum, equivalent to the amount in the 2022-2023 financial year budget, adjusted by CPI; and (ii) 100% of the amount referred to in (i) is disbursed by the end of the first month of the fourth quarter of FY 2024-2025.
  - (g) for Emergency Expenditures under Category (4), unless and until all of the following conditions have been met in respect of said expenditures:
    - (i) (A) the Recipient has determined that an Eligible Crisis or Emergency has occurred, and has furnished to the Association a request to withdraw Financing amounts under Category (4); and (B) the Association has agreed with such determination, accepted said request and notified the Recipient thereof;

- (ii) the Recipient has adopted the CERC Manual and Emergency Action Plan, in form and substance acceptable to the Association; and
- (iii) the Recipient has prepared and disclosed all safeguard instruments, acceptable to the Association, required for the activities under the Contingent Emergency Response Part, and has implemented any actions which are required to be taken under said instruments all in accordance with the provisions of Section I.G.3 of this Schedule 2.

2. The Closing Date is June 30, 2026.

## APPENDIX

### Section I. Definitions

1. “Affected Person” means a person or entity who, on account of the execution of the Project and/or SD Subprojects, has experienced or would experience direct economic and social impacts caused by: (i) the involuntary taking of land resulting in: (A) relocation or loss of shelter; (B) loss of assets or access to assets; or (C) loss of income sources or means of livelihood, whether or not such person must move to another location; or (ii) the involuntary restriction of access to legally designated parks and protected areas, resulting in adverse impacts on the livelihood of such person, and “Affected Persons” means more than one such Affected Person.
2. “Annual Work Plan and Budget” means each annual work plan, together with the related budget, for the Project approved by the Association pursuant to the provisions of Section I.C of Schedule 2 to this Agreement.
3. “Anti-Corruption Guidelines” means, for purposes of paragraph 5 of the Appendix to the General Conditions, the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 and as of July 1, 2016.
4. “Category” means a category set forth in the table in Section III.A of Schedule 2 to this Agreement.
5. “CPI” means consumer price index.
6. “CSO” means civil society organization.
7. “DDF” means District Development Fund, which is the intergovernmental fiscal transfer to LAs intended to finance District Development Plans.
8. “EHS Guidelines” means the World Bank Group Environmental, Health and Safety Guidelines published on [www.ifc.org/ehsguidelines](http://www.ifc.org/ehsguidelines), as said guidelines are updated from time to time.
9. “Environmental and Social Management Framework” or “ESMF” means the instrument prepared and adopted by the Recipient, satisfactory to the Association, disclosed in-country on January 30, 2020, and the Association’s website on January 31, 2020, setting out the principles, rules, guidelines and procedures to screen and assess the potential adverse environmental and social risks and impacts (including health and safety issues) of Project activities, including the risks of gender-based violence and sexual exploitation and abuse, adopt measures to avoid, reduce, mitigate or offset environmental and social adverse risks and impacts, including measures that endeavor to prevent and respond to gender-based violence

and sexual exploitation and abuse, procedural, budget and institutional arrangements and actions needed to implement these measures, and information on the agency or agencies responsible for addressing the Projects' risks and impacts; as well as for the preparation of environmental and social management plans, as such framework may be amended by the Recipient from time to time, with the prior written agreement of the Association.

10. "Fiscal Year" or "FY" means the Recipient's fiscal year commencing April 1 and ending March 31 of the following year.
11. "General Conditions" means the "International Development Association General Conditions for IDA Financing, Investment Project Financing", dated December 14, 2018.
12. "GPI" means a grant for performance improvement to be provided under Part 3.2(b) of the Project, which uses the proceeds of the Grant to finance the reasonable cost of goods, works, non-consulting services, consulting services, Operating Costs and Training required for a GPI Subproject to be carried out by a GPI Beneficiary, and "GPIs" means more than one such GPI.
13. "GPI Agreement" means an agreement between the Recipient and a GPI Beneficiary setting out terms and conditions for the provision of a GPI for the purpose of carrying out a GPI Subproject, as further elaborated in Section I.E.2 of Schedule 2 to this Agreement, and "GPI Agreements" means more than one such agreement.
14. "GPI Beneficiary" means a District Local Authority that satisfies the criteria set out in the PIM for receiving a GPI to carry out a GPI Subproject, and "GPI Beneficiaries" means more than one such beneficiary.
15. "GPI Subproject" means a subproject consisting of activities under Part 3.2(b) of the Project and as further elaborated in the PIM, to be carried out by a GPI Beneficiary using the proceeds of a GPI Grant, and "GPI Subprojects" means more than one such subproject.
16. "Intergovernmental Fiscal Transfer System" means the Recipient's system of central government transfers of recurrent and development grants to local governments.
17. "LA" or "Local Authority" means the district level administrative subdivision of the Republic of Malawi but excludes the seven urban districts at the city, municipality and town levels, and "LAs" or "Local Authorities" means, more than one such district.

18. “Local Authority Annual Investment Plan” means the annual plan prepared by each Local Authority with a list of prioritized proposed investments selected from the District Development Plan and approved by the Local Council and the NLGFC.
19. “Local Authority Performance Assessment” or “LAPA” means the performance assessment of Local Authority to be carried out under Part 1.2 of the Project.
20. “MoFEA” means the Recipient’s Ministry of Finance and Economic Affairs, and any successor thereto.
21. “MoLGUC” means the Recipient’s Ministry of Local Government, Unity and Culture, and any successor thereto.
22. “MWK” means Malawian Kwacha, the official currency of the Republic of Malawi.
23. “National Audit Office” means the Recipient’s National Audit Office established pursuant to the Public Audit Act (No. 6 of 2003) as part of the office of the Auditor General responsible for auditing public accounts of the Republic of Malawi, and any successor thereto.
24. “NLGFC” means the National Local Government Finance Committee established pursuant to Section 149 of the Constitution of the Republic of Malawi (1994) and referred to in Section I.A.3 of Schedule 2 to this Agreement.
25. “Operating Costs” means incremental recurrent expenditures incurred on account of Project implementation, including reasonable incremental expenses incurred by the Recipient, based on Annual Work Plans, for Project supervision, management, and monitoring, office and information technology supplies and equipment, bank charges, media information campaigns and communications expenses, vehicle maintenance and operation (including fuel), travel expenditures and other travel-related allowances; advertising, internships and staff salaries (other than consultants’ services), but excluding salaries of civil servants.
26. “Original Financing Agreement” means the financing agreement dated November 5, 2020, between the Recipient and the Association (Grant No. D598-MW), said Financing Agreement as amended in Section II of this Appendix.
27. “Original Project” means the project described in Schedule 1 to the Original Financing Agreements, as amended.
28. “Preparation Advance” means the advance referred to in Section 2.07 (a) of the General Conditions, granted by the Association to the Recipient pursuant to the

letter of agreement signed on behalf of the Association on March 14, 2019, and on behalf of the Recipient on March 19, 2019.

29. “Procurement Regulations” means, for purposes of paragraph 87 of the Appendix to the General Conditions, the “World Bank Procurement Regulations for IPF Borrowers”, dated July 2016, revised November 2017, August 2018, November 2020 and September 2023.
30. “PBG” means a performance-based grant to be provided under Part 1.1. of the Project, which uses the proceeds of the Grant to finance the reasonable cost of goods, works, non-consulting services, consulting services, Operating Costs and Training required for a PBG Subproject to be carried out by a PBG Beneficiary, and “PBGs” means more than one such PBG.
31. “PBG Agreement” means an agreement between the Recipient and a PBG Beneficiary setting out terms and conditions for the provision of a PBG for the purpose of carrying out a PBG Subproject, as further elaborated in Section I.D.2 of Schedule 2 to this Agreement, and “PBG Agreements” means more than one such agreement.
32. “PBG Beneficiary” means a District Local Authority that satisfies that satisfies the criteria set out in the PIM for receiving a PBG to carry out a PBG Subproject, and “PBG Beneficiaries” means more than one such beneficiary.
33. “PBG Subproject” means a subproject consisting of activities under Part 1.1 of the Project and as further elaborated in the PIM, to be carried out by a PBG Beneficiary using the proceeds of PBG Grant, and “PBG Subprojects” means more than one such subproject.
34. “Resettlement Policy Framework” or “RPF” means the instrument prepared and adopted by the Recipient, satisfactory to the Association, and disclosed in country on January 30, 2020, and the Association’s website on January 31, 2020, sets out the resettlement principles, guidelines, organizational arrangements (including consultation and budget), and design criteria for the preparation of resettlement action plans under the Project and Subproject, as such framework may be amended from time to time with the prior written agreement of the Association.
35. “Safeguard Instruments” means collectively, the ESMF, Subproject ESIA Subproject ESMP, Resettlement Policy Framework, Subproject RAP, and “Safeguard Instrument” means any of such Safeguards Instruments.
36. “Safeguard Policies” means, the Operational Policies (Ops) and Association Procedures (BPs) of the Association, namely OP/BP 4.01 (Environmental Assessment), OP/BP 4.04 (Natural Habitats), OP/BP 4.09 (Pest Management), OP/BP 4.10 (Indigenous Peoples), OP/BP 4.11 (Physical Cultural Resources),

OP/BP 4.12 (Involuntary Resettlement), OP/BP 4.36 (Forests), and OP/BP 4.37 (Safety of Dams); they can be found at <https://policies.worldbank.org>.

37. “Signature Date” means the later of the two dates on which the Recipient and the Association signed this Agreement and such definition applies to all references to “the date of the Financing Agreement” in the General Conditions.
38. “Subproject Environmental and Social Impact Assessment” or “Subproject ESIA” means: (i) any environmental and social impact assessment to be prepared for civil works to be carried out under a Subproject; and (ii) any site-specific environmental and social impact assessment to be prepared pursuant to the ESMF for a Subproject in each case describing a set of mitigation, enhancement, monitoring, and institutional measures to be taken during implementation of the Subproject to avoid, minimize and mitigate adverse environmental and social impacts, offset them, or reduce them to acceptable levels, or to enhance positive impacts; as said environmental impact and social assessments: (a) are satisfactory to the Association; (b) have been published by the Recipient; (c) have been published on the Association’s website; and (d) may be amended and/or supplemented from time to time with the prior written agreement of the Association, and “Subproject ESIA’s” means, collectively, all such assessments.
39. “Subproject Environmental and Social Management Plan” or “Subproject ESMP” means the instrument to be prepared for a Subproject in accordance with the procedures and requirements under the ESMF, satisfactory to the Association, which details: (a) the measures to be taken during the implementation and operation of the Subproject to avoid, minimize, mitigate or offset adverse environmental and social impacts (including health and safety issues), or to reduce them to acceptable levels; and (b) the actions needed to implement these measures, as said instrument may be amended from time to time with the Association’s prior written agreement and “Subproject ESMP’s” means, collectively, all such instruments.
40. “Subproject Resettlement Action Plan” or “Subproject RAP” means the instrument to be prepared for a Subproject in accordance with the procedures and requirements of the Resettlement Policy Framework, which includes the principles, procedures, organizational arrangements and budget to implement the resettlement related activities under the Subproject, as said resettlement action plan may be revised from time to time with the prior written agreement of the Association and “Subproject RAP’s” means, collectively, all such instruments.
41. “Subproject” means a PBG Subproject or a GPI Subproject, and “Subproject” means, collectively, all such subprojects.
42. “Taxes” means taxes as defined in the General Conditions with the exclusion of value added taxes and custom duties.

43. “Training” means the cost arising under the Project for approved training (other than those for consultants’ services) including, seminars, workshops, knowledge sharing activities and study tours, and covers the following costs associated with such activity: travel and subsistence costs for training participants, costs associated with securing the services of trainers, rental of training facilities, preparation and reproduction of training materials, and other costs directly related to training preparation and implementation.
44. “CERC Manual” means the manual referred to in Section I.G.1(a) of Schedule 2 to this Agreement, as such manual may be updated from time to time with the agreement of the Association, and which is an integral part of the Project Implementation Manual.
45. “Contingent Emergency Response Part” means any activity or activities to be carried out under Part 5 of the Project to respond to an Eligible Crisis or Emergency.
46. “Eligible Crisis or Emergency” means an event that has caused, or is likely to imminently cause, a major adverse economic and/or social impact to the Recipient, associated with a natural or man-made crisis or disaster.
47. “Emergency Action Plan” means the plan referred to in Section I.G.1(b), detailing the activities, budget, implementation plan, and monitoring and evaluation arrangements, to respond to the Eligible Crisis or Emergency.
48. “Emergency Expenditures” means any of the eligible expenditures set forth in the CERC Manual referred to in Section I.G.1(a) of Schedule 2 to this Agreement and required for the Contingent Emergency Response Part.

## **Section II. Amendment to the Original Financing Agreement**

The Original Financing Agreement is amended as set forth below:

1. All references to: (a) “LAPGA” or “Local Authority Performance and Granting Assessment” throughout the Financing Agreement are hereby replaced by “LAPA” or “Local Authority Performance Assessment”; (b) “MoFEPD” or “Ministry of Finance, Economic Planning and Development” throughout the Financing Agreement are hereby replaced by “MoFEA” or “Ministry of Finance and Economic Affairs”; and (c) “MoLGRD” or “Ministry of Local Government and Rural Development” throughout the Financing Agreement are hereby replaced by “MoLGUC” or “Ministry of Local Government, Unity and Culture”.



2. Part 2 of Schedule 2 to the Original Financing Agreement is hereby amended to read as follows:

**“Part 2: Strengthening Intergovernmental Accountability Systems**

Carry out the following to improve intergovernmental accountability systems:

1. Strengthen service delivery financing through fiscal decentralization, including: (a) provision of technical assistance, skills enhancement, and development of digital systems to improve efficiency and transparency in administration of, and reporting on Intergovernmental Fiscal Transfer Systems; (b) carrying out analytical work and policy dialogue in support of the medium-term fiscal decentralization strategy and outcomes; and (c) strengthening of relevant ministries, departments, and agencies by providing technical assistance, to carry out cross-country learning, and stakeholder consultations.
2. Strengthen the accountability of Local Authorities through external audit, and supporting the National Audit Office in conducting timely financial audits of local government financial statements.”
3. Part 3.2 of Schedule 1 to the Original Financing Agreement is hereby amended to read as set forth in Part 3.2 of Schedule 2 to this Agreement.
4. The table set forth in Section III.A. of Schedule 2 to the Original Financing Agreement is amended as set forth in Section III.A. of Schedule 2 to this Agreement.
5. A new paragraph (f) is added under Section III.B.1 of Schedule 2 to the Original Financing Agreement to read as follows, and the remaining paragraph is re-lettered accordingly:  
  
“(f) under Category 1(e) unless and until: (i) the amount of funds allocated to the DDF in the approved budget for FY 2024-2025 is, at a minimum, equivalent to the amount in the 2022-2023 financial year budget, adjusted by CPI; and (ii) 100% of the amount referred to in (i) is disbursed by the end of the first month of the fourth quarter of FY 2024-2025.”
6. The Closing Date set forth in Section III.B.2 of Schedule 2 to the Original Financing Agreement shall be the date June 30, 2026.
7. The Appendix to the Original Financing Agreement (Definitions), is amended as set forth in Section 1 of the Appendix to this Agreement.

Except, as otherwise specified in this Section II, all the other terms and conditions of the Original Financing Agreement shall remain in full force and effect.