

CONFORMED COPY

GRANT NUMBER H333-MAI

Financing Agreement

(First Poverty Reduction Strategy Grant Development Policy Lending)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated November 15, 2007

FINANCING AGREEMENT

Agreement dated November 15, 2007, entered into between REPUBLIC OF MALAWI (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (a) the actions which the Recipient has already taken under the Program and which are described in Section I of the Schedule to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

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

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to thirteen million, one hundred thousand Special Drawing Rights (SDR 13,100,000) (variously, “Grant” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of the Schedule to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are June 15 and December 15 in each year.
- 2.05. The Payment Currency is the Dollar.

ARTICLE III — PROGRAM

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of the Schedule to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

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

ARTICLE V — EFFECTIVENESS

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Minister for Finance.

- 6.02. The Recipient's Address is:

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

Cable:	Telex:	Facsimile:
FINANCE Lilongwe	44407 MI	265-1-789173

- 6.03. The Association's Address is:

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

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

AGREED at Lilongwe, Republic of 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/ Timothy R. Gilbo

Authorized Representative

SCHEDULE**Program Actions; Availability of Financing Proceeds****Section I. Actions under the Program**

Actions Taken Under the Program. The Recipient has undertaken actions under the Program that are satisfactory to the Association, that include the following:

- (a) establishment of three (3) satellite auction floors for tobacco marketing, in accordance with the provisions of paragraph 19 of the Letter of Development Policy.
- (b) strategic re-focusing of the operations of ADMARC by divesting Non-Core Business Assets, in accordance with the provisions of paragraph 17 of the Letter of Development Policy.
- (c) implementation of its fertilizer subsidy program, with at least twenty-eight percent (28%) of the fertilizer subsidies being distributed through private sector entities, in accordance with the provisions of paragraph 20 of the Letter of Development Policy.
- (d) establishment and operationalization of a commercial division within its High Court, in accordance with the provisions of paragraph 25 of the Letter of Development Policy.
- (e) recruitment and deployment of twenty-four (24) District land officers and fifty-five (55) land clerks, in accordance with the provisions of paragraph 22 of the Letter of Development Policy.
- (f) reconciliation of payroll and personnel data records for its civil service, in accordance with the provisions of paragraph 30 of the Letter of Development Policy.
- (g) financial audits for Fiscal Year 2004/05 of Selected Central Government Institutions, representing at least fifty percent (50%) of its budgetary outlay, in accordance with the provisions of paragraph 34 of the Letter of Development Policy.

Section II. Availability of Financing Proceeds

- A. General.** The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

- B. Allocation of Financing Amounts.** The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	13,100,000
TOTAL AMOUNT	<u>13,100,000</u>

- C. Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon the deposit of the amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

D. Excluded Expenditures. The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

- E. Closing Date.** The Closing Date is June 30, 2008.

APPENDIX**Section I. Definitions**

1. “ADMARC” means the Agricultural Development and Marketing Corporation, a company incorporated under the Companies Act, Chapter 46:03 of the laws of the Recipient, and includes any successor thereto.
2. “District” means a local government area established pursuant to the Local Government Act, Chapter 22:01 of the laws of the Recipient.
3. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

- (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
4. “Fiscal Year” means the Recipient’s fiscal year which commences on July 1 of each calendar year and ends on June 30 of the following calendar year.
5. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
6. “Letter of Development Policy” means the letter from the Recipient to the Association dated August 15, 2007, declaring the Recipient’s commitment to the execution of the Program, and requesting financial assistance from the Association for its execution.
7. “Non-Core Business Assets” means all of the issued and outstanding shares in the capital stock of Manica (Malawi) Limited; Clark Cotton (Malawi) Limited; Alexander Forbes (Malawi) Limited; and Sugar Corporation of Malawi Limited, registered in the name of, or beneficially owned by, the ADMARC Investment Holding Company Limited.
8. “Program” means the program of actions, objectives, and policies designed to promote growth and achieve a sustainable reduction in poverty set forth or referred to in the Letter of Development Policy, declaring the Recipient’s commitment to the execution of the Program, and requesting financial assistance from the Association for its execution.
9. “Selected Central Government Institutions” means, collectively, the following ministries and departments of the Recipient: Office of the President and Cabinet; Ministry of Defence; Ministry of Economic Planning and Development; Ministry of Local Government; Ministry of Lands; Ministry of Agriculture; Ministry of Water Development; Ministry of Education; Ministry of Foreign Affairs; Ministry of Health; Ministry of Gender; Ministry of Information; Ministry of Justice; Ministry of Transport and Public Works; Ministry of Forestry; Ministry of Finance; the Police; Public Debt (Debt and Aid); Pensions (Accountant General); National Assembly; Human Resources; the Army; National Statistical Office; Local Government Authority; Accountant General; Malawi Revenue Authority; Electoral Commission; and Anti-Corruption Bureau.
10. “Single Tranche” means the amount of the Financing allocated to the category entitled “Single Tranche” in the table set forth in Part B of Section II of the Schedule to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the “International Development Association General Conditions for Credits and Grants”, dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.

3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. *Plans; Documents; Records*

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 4.07. *Program Monitoring and Evaluation*

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.

