

CONFORMED COPY

CREDIT NUMBER 2856 MAI

Development Credit Agreement

(Social Action Fund Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated May 15, 1996

CREDIT NUMBER 2856 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated May 15, 1996, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) 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;

(B) the Association has received the Borrower's Policy Framework for Poverty Alleviation Programme dated October 1995 (hereinafter called the Program), declaring, inter alia, the Borrower's commitment to the execution of the Program; 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, with the last sentence of Section 3.02 deleted (the General Conditions) constitute an integral part of this Agreement:

- (a) The last sentence of Section 3.02 is deleted.

(b) The second sentence of Section 5.01 is modified to read:

"Except as the Association and the Borrower shall otherwise agree, no withdrawals shall be made: (a) on account of expenditures in the territories of any country which is not a member of the Bank or for goods produced in, or services supplied from, such territories; or (b) for the purpose of any payment to persons or entities or for any import of goods, if such payment or import, to the knowledge of the Association is prohibited by a decision of the United Nation Security Council taken under Chapter VII of the Charter of the United Nations."

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

(a) "MEPD" means the Borrower's Ministry of Economic Planning and Development;

(b) "MOLGRD" means the Borrower's Ministry of Local Government and Rural Development;

(c) "MOF" means the Borrower's Ministry of Finance;

(d) "MOWCACDSW" means the Borrower's Ministry of Women and Children's Affairs, Community Development and Social Welfare;

(e) "MOE" means the Borrower's Ministry of Education;

(f) "MOHP" means the Borrower's Ministry of Health and Population;

(g) "MRRA" means the Borrower's Ministry of Relief and Rehabilitation Affairs;

(h) "MOALD" means the Borrower's Ministry of Agriculture and Livestock Development;

(i) "MIWD" means the Borrower's Ministry of Irrigation and Water Development;

(j) "MOWS" means the Borrower's Ministry of Works and Supplies;

(k) "MASAF" means Malawi Social Action Fund, an autonomous unit established as of July 1, 1995 within MEPD to carry out the Project;

(l) "MU" means the management unit of MASAF referred to in paragraph 1 (a) of Schedule 4 to this Agreement;

(m) "NGO" means a non-governmental organization duly authorized to operate in the Borrower's territory;

(n) "PSC" means the Project Steering Committee referred to in paragraph 1(b) of Schedule 4 to this Agreement;

(o) "Project Committee" means a committee established by a community to represent that community's interests, as specified in the Implementation Manual (as hereinafter defined) during the identification, preparation, appraisal and implementation of a Subproject or a PW Activity (as hereinafter defined) and comprising a chairperson, a secretary, a treasurer, a deputy treasurer and from three to five members, all duly elected by the members of the community;

(p) "Grant" means a grant made or proposed to be made by MASAF to finance a Subproject;

(q) "Subproject" means a specific development project financed

or to be financed through a Grant extended under Part A.1 of the Project;

(r) "Subproject Agreement" means an agreement to be entered into between MASAF and a Beneficiary for the purpose of carrying out a Subproject;

(s) "Beneficiary" means a community, including a village or a group of villages, duly represented by a Project Committee, which is the recipient of a Grant;

(t) "Implementation Manual" means the comprehensive manual for the implementation of all components of the Project dated March 5, 1996 and referred to in paragraph 2(a) of Schedule 4 to this Agreement;

(u) "PW Activity" means specific construction, rehabilitation or maintenance works to be identified and carried out under Part B of the Project;

(v) "Project Account" means the account referred to in Section 3.05(a) of this Agreement;

(w) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated January 31, 1995, February 15, 1995, October 11, 1995, and October 23, 1995, between the Borrower and the Association;

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

(y) "MK" means Malawi Kwacha, the Borrower's currency; and

(z) "District" means a district as defined in the Regional and Districts Boundaries and Place Names Act, Cap. 18:04 of the Laws of Malawi.

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 thirty-eight million Special Drawing Rights (SDR 38,000,000).

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: (i) 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 (other than Part A.1 of the Project) and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or, if the Association shall so agree, to be paid) by MASAF on account of withdrawals made by a Beneficiary under a Grant to meet the reasonable cost of goods, works or consultancy services required for a Subproject and in respect of which the withdrawal from the Credit Account is requested.

(b) The Borrower may, for the purposes of the Project, open and maintain in dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against setoff, 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 canceled.

Section 2.03. The Closing Date shall be December 31, 2001 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 respective 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 or 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 payment 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 per cent (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 April 1 and October 1 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each April 1 and October 1 commencing October 1, 2006 and ending April 1, 2036. Each installment to and including the installment payable on April 1, 2016 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 gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985 dollars for five consecutive years; 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 terms of repayment of installments under paragraph (a) above by 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. If so requested by the Borrower, the Association may revise such modification 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.

(c) 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 through MASAF with due diligence and efficiency and in conformity with appropriate financial, administrative, environmental and economic 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, works 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 9.07 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 for the future operation of the Project; and

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

Section 3.04. (a) The Borrower shall, not later than July 1, 1999, or by the date on which not less than fifty percent of the proceeds of the Credit have been withdrawn from the Credit Account, whichever shall occur first, carry out jointly with the Association and MASAF, a comprehensive review of the Project, during which they shall exchange views generally on all matters relating to the progress made in the carrying out of the Project and the performance by the Borrower of its obligations under this Agreement including, but not limited to a review of the achievements of the Project in accordance with performance indicators specified in the Implementation Manual, the implementation and management aspects of the Project, the performance and use of technical assistance personnel, the role of national counterpart staff, the status and results of training, reporting, accounting and audit performance, disbursement procedures and the overall sustainability of the Project.

(b) Not later than thirty (30) days prior to the review referred to in paragraph (a) above, the Borrower shall furnish to the Association, for its comments, a report in such detail as the Association shall reasonably request, including an evaluation of the progress achieved in implementing the various components of the Project and a draft plan containing proposals for remedying any identified deficiencies.

(c) The Borrower shall, promptly after the review referred to in paragraph (a) above, (i) prepare an action plan satisfactory to the Association based on the recommendations stemming from the aforementioned review, and (ii) adopt and implement such plan for the remainder of the Project period.

Section 3.05. Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:

(a) open and maintain in a commercial bank, until the completion of the Project, an account on terms and conditions satisfactory to the Association;

(b) deposit into the Project Account an initial amount equivalent to the Borrower's estimated share of counterpart funds for the first quarter of Project implementation as shall be agreed upon by the Borrower and the Association and thereafter, at quarterly intervals, deposit into the Project Account such amounts as are estimated to be

required for the ensuing quarter or such other amounts as shall be agreed between the Borrower and the Association; and

(c) ensure that the amounts deposited into the Project Account in accordance with paragraph (b) of this Section shall be used exclusively for expenditures under the Project not otherwise financed from the proceeds of the Credit.

Section 3.06. The Borrower undertakes that unless the Association shall otherwise agree, Subprojects shall be promoted, identified, appraised, financed, carried out and maintained in accordance with paragraphs 3, 4 and 5 of Schedule 4 to this Agreement and the procedures set forth in the Implementation Manual.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall cause MASAF to maintain records and accounts adequate to reflect in accordance with sound accounting practices the operations and financial condition of MASAF.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (iii) 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 copy of the report of such audit by said auditors, of such scope, including the preparation of appropriate management and technical audits and in such detail as the Association shall have reasonably requested; and
- (iv) furnish to the Association such other information concerning said records, accounts and the audit thereof as the Association shall 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 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 or payment out of the Special 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.

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (h) of the General Conditions, the following additional event is specified, namely, that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out.

ARTICLE VI

Termination

Section 6.01 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 VII

Representatives of the Borrower; Addresses

Section 7.01. 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 7.02. 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:
FINANCE Lilongwe	44407 MI

For the Association:

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

Cable address:	Telex:
INDEVAS Washington, D.C.	248423 (RCA) 82987 (FTCC) 64145 (WUI) or 197688 (TRT)

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

REPUBLIC OF MALAWI

By /s/ Willie Chokani

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Katherine Marshall
Acting Regional Vice President
Africa

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:

Category	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(1) Subprojects	20,500,000	95% of amounts paid by MASAF
(2) Works under Part B of the Project	8,700,000	100% of foreign expenditures and 95% of local expenditures
(3) Equipment and Supplies under:		100% of foreign expenditures and 90% of local expenditures
(i) Parts A.2 and 3 of the Project and	700,000	
(ii) Part C of the Project	100,000	
(4) Consultants' Services, training and workshops under:		100%
(i) Parts A.2 and 3 of the Project; and	1,400,000	
(ii) Part C of the Project	300,000	
(5) Operating costs	1,500,000	95% in F/Y 96/97 and 90% thereafter
(6) Refunding of Project Preparation Advance	1,400,000	Amounts due pursuant to Section 2.02 (c) of this Agreement
(7) Unallocated	3,400,000	
TOTAL	38,000,000	

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 incremental recurrent expenditures incurred on account of the Project for MU staff salaries, per diem, benefits, professional fees, office supplies, fuel and maintenance of vehicles, maintenance of equipment, telephone and other communications charges, office rent and insurance.

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.

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure:

(a) for expenditures under contracts for works not exceeding \$500,000 equivalent each;

(b) for expenditures under contracts for goods and consultants' services, provided by firms, not exceeding \$100,000 equivalent each; and

(c) for expenditures under contracts for consultants' services, provided by individuals, not exceeding \$50,000 each;

under such terms and conditions as the Association shall specify by notice to the Borrower.

SCHEDULE 2

Description of the Project

The objectives of the Project are to contribute towards poverty reduction in the Borrower's territory through: (a) the provision of additional resources for programs targeted at the poor; (b) the inclusion of communities in project preparation and implementation; (c) support for a district-level program of labor-intensive construction to be targeted at the poorest districts and communities; and (d) strengthening poverty monitoring and assessment.

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: Community Subprojects

1. Promotion, appraisal, supervision and evaluation of community-based Subprojects and provision of Grants for the financing thereof, for:

(a) (i) upgrading and construction of infrastructure in the education, health, water, transport and communications sectors; and (ii) the construction of rural and urban markets, community water points and granaries;

(b) the improved delivery of, and access to, social and economic services, including: (i) a one-time supply of drugs for health facilities and communities, (ii) desks for classrooms, and (iii) the provision of technical advisory services.

2. Provision of training and technical advisory services, and acquisition of equipment, materials and vehicles: (a) to enhance the technical and managerial capabilities of communities, the Borrower's officials including MASAF Staff, NGOs and members of Project Committees and their capabilities in self-managed development; and (b) to reorient and build capacities of community development facilitators, including, individual community members, extension officers and NGOs, and to improve

their capabilities in participatory planning and implementation of poverty alleviation initiatives.

3. Dissemination of the objectives and working principles of MASAF through the implementation of sensitization, information, education and communication activities. Part B: Public Works Program.

4. Carrying out of a safety net scheme in selected poor and food-deficient areas of the Borrower's territory through the implementation of a labor-intensive public works program, including, the construction, rehabilitation and maintenance of roads and small-scale irrigation works.

Part C: Poverty Monitoring Support Facility

Strengthening the Borrower's capacity to monitor the living conditions in the territory of the Borrower, including:

(a) building the Borrower's capacity to collect, analyse and disseminate poverty-related data;

(b) the carrying out of integrated household surveys; and

(c) the establishment of a program for analysis of poverty issues and assessment of the impact of economic policies and targeted interventions on the poor; through the provision of equipment, supplies, training and technical advisory services.

* * *

The Project is expected to be completed by June 30, 2001.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: General

Goods and works 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 (the Guidelines) and the following provisions of this Section, as applicable.

Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Section, goods and works 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.

Preference for domestically manufactured goods and domestic contractors

The provisions of paragraphs 2.54 and 2.55 of the Guidelines and Appendix 2 thereto shall apply to goods manufactured in the territory of the Borrower and works to be carried out by domestic contractors.

Part C: Other Procurement Procedures

1. National Competitive Bidding

(a) Goods including vehicles, equipment, furniture and supplies estimated to cost \$100,000 equivalent or less per contract and \$300,000 equivalent or less in the aggregate, and

(b) works estimated to cost \$500,000 equivalent or less per contract and \$10,300,000 equivalent or less in the aggregate, may be

procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping

Goods estimated to cost \$30,000 equivalent or less per contract and \$500,000 equivalent or less in the aggregate, may be procured on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

3. Community Participation

Goods and works for Subprojects and PW Activities estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$41,700,000 equivalent, shall be procured in accordance with the procedures set forth in the Implementation Manual.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or 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 and works 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 and for works estimated to cost the equivalent of \$500,000 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

1. Consultants' services shall be procured under contracts awarded in accordance with the provisions of the "Guidelines for the Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency" published by the Bank in August 1981 (the Consultant Guidelines). For complex, time-based assignments, such contracts shall be based on the standard form of contract for consultants' services issued by the Bank, with such modifications as shall have been agreed by the Association. Where no relevant standard contract documents have been issued by the Bank, other standard forms acceptable to the Association shall be used.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply: to (a) contracts for the employment of consulting firms estimated to cost less than \$100,000 equivalent each, or (b) contracts for the employment of individuals estimated to cost less than \$50,000 equivalent each. However, said exceptions to prior Association review shall not apply to: (a) the terms of reference for such contracts, (b) single-source selection of consulting firms, (c) assignments of a critical nature, as reasonably determined by the Association, (d) amendments to contracts for the employment of consulting firms raising the contract value to \$100,000 equivalent or above, or (e) amendments to contracts for the employment of individual consultants raising the contract value to \$50,000 equivalent or above.

Implementation Program

General

1. (a) The Borrower shall cause MASAF to: (i) maintain the Management Unit (MU) which shall be responsible for the implementation of the Project (ii) at all times maintain staff, with qualifications and terms of reference acceptable to the Association, including a manager, heads of the field operations, technical services, public works, finance and administration divisions, and an internal auditor who shall be appointed by not later than ninety days after the Effective Date.

(b) The Borrower shall continue to maintain the Project Steering Committee (the PSC) established on April 27, 1995, to oversee the work of MU. Unless the Association shall otherwise agree, PSC shall, (i) be chaired by the Principal Secretary of MEPD; and (ii) comprise the following members: representatives of MOHP, MOE, MOWS, MOLGRD, MOF, MOWCACDSW, MIWD, the Borrower's office for the Poverty Alleviation Program, the National Commission for Women, the Council for Non Governmental Organizations in Malawi, the Borrower's advisors on development issues and the Manager of MASAF.

(c) PSC shall, on behalf of the Borrower: (i) provide overall guidance on the management of the Project, (ii) give the MU directives and guidance on the interpretation of the Borrower's policies pertaining to those sectors affected by the Project, (iii) approve MU's annual work plans, (iv) approve proposals to be financed by MASAF, and (v) ensure that the budgetary allocations made to the various ministries of the Borrower involved in the implementation of the various components of the Project are adequate to cover the anticipated recurrent expenditures required for the carrying out of Project activities.

2. (a) MU shall: (i) maintain the detailed and comprehensive manual for the implementation of all components of the Project, (ii) take all measures necessary to ensure that the Project is carried out in conformity with the Implementation Manual, and (iii) not assign, amend, abrogate or waive the Implementation Manual or any provision thereof if, in the opinion of the Association, such assignment, amendment or waiver will materially affect the implementation of the Project.

(b) MU shall prepare and furnish to the Association, with effect from July 1, 1996, for its review and comments, annual progress reports in such form as the Association shall reasonably request, including, an evaluation of the implementation of the various components of the Project based on the work plan for the period under review, identification of any problems encountered and suggested remedial actions, and the work plan and budget required for the implementation of the Project in the ensuing year.

(c) MU shall, not later than ninety days after the Effective Date, commence the implementation of a training program for strengthening the computerization of MASAF's accounting system to be carried out with the assistance of consultants to be employed in accordance with the provisions of Section II of Schedule 3 to this Agreement.

Part A of the Project

3. Eligibility Criteria for Subprojects

Without limitation on the provisions of Paragraph 2 (a) above, no Subproject shall be eligible for financing out of the proceeds of the Credit unless the PSC of MASAF shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Implementation Manual, that the Subproject satisfies the eligibility criteria specified in more detail in the Implementation Manual, which shall include the following:

(a) the Subproject shall be for social and economic infrastructure and services, including primary health, basic education, rural water supply, feeder roads, and the construction of markets and granaries;

(b) the Subproject shall be initiated by a Beneficiary duly represented by a Project Committee;

(c) the Subproject shall be economically, financially and technically viable in accordance with the standards specified in the Implementation Manual;

(d) the Beneficiary shall provide not less than 20% of the estimated costs of the Subproject in the form of cash, materials, labor or other services; and

(f) the Subproject shall be in compliance with the standards set forth in the applicable laws and regulations of the Borrower relating to health, safety and environmental protection.

4. Terms and Conditions of Grants made for Subprojects

In financing Subprojects, MASAF shall enter into a Subproject Agreement with the Beneficiary, under terms and conditions which shall include the following:

(a) financing to be on a grant basis and, unless otherwise agreed with the Association, not to exceed the equivalent of \$100,000 per Grant;

(b) the obligation to carry out the Subproject in accordance with the Implementation Manual, with due diligence and efficiency and in accordance with sound technical, financial, environmental and managerial standards and to maintain adequate records to reflect, in accordance with sound accounting practices, the operations, resources and expenditures in respect of the Subproject;

(c) the requirement that : (i) the goods, works and services to be financed from the proceeds of the Credit shall be procured in accordance with the procedures set forth in Schedule 3 to this Agreement, and (ii) such goods, works and services shall be used exclusively in the carrying out of the Subproject;

(d) the right of MASAF to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction included in the Subproject, the operations thereof and any relevant records and documents;

(e) the right of MASAF to obtain all information as MASAF or the Association shall reasonably request regarding the administration, operation and financial conditions of the Subproject; and

(f) the right of MASAF to suspend or terminate the right of the Beneficiary to use the proceeds of the Credit for the Subproject upon the failure by the Beneficiary to perform any of its obligations under the Subproject Agreement.

5. In order to assist communities to expeditiously implement Subprojects, the MU shall maintain a unit cost data bank for monitoring the cost of materials, goods, works and services, and update such data on a quarterly or semiannual basis.

Part B of the Project

6. (a) MASAF shall be responsible for the overall coordination of implementation of PW Activities in accordance with the eligibility criteria specified in the Implementation Manual including a determination by MASAF that: (i) the nature and size of the PW Activity is such that it cannot be carried out by the relevant community on a self-help basis, (ii) the unskilled labor content of the PW Activity is not less than 35% of the total cost thereof, (iii) implementation of the PW Activity will not require specialized technical inputs and procedures and can be started expeditiously, and (iv) the total cost shall not exceed US\$100,000 per PW Activity.

(b) MU's Public Works Division shall: (i) prepare the annual

program of PW Activities, (ii) appraise proposals for PW Activities, (iii) recommend to PSC the approval of financing for eligible PW Activities and make arrangements for the supervision of approved PW Activities, (iv) ensure that the appropriate sectoral ministries of the Borrower: (A) provide the necessary supervision during the implementation of PW Activities, and (B) develop appropriate procedures for implementation.

7. PW Activities shall be implemented, as appropriate, by (a) a team (the District Team) comprising the District Commissioner, the Clerk of Council and the Works Supervisors of MOWS assigned to the District, or (b) private contractors selected in accordance with the procedures specified in the Implementation Manual.

8. The District Team shall also be responsible for:

(a) identifying PW Activities eligible for financing under the Project in consultation with communities, local leaders, extension workers and NGOs,

(b) determining whether the preparation and execution of a PW Activity will be carried out by the District Office of MOWS, an NGO or other private agency,

(c) preparing those PW Activities which have been identified,

(d) submitting PW Activity proposals to MU for approval by PSC and financing under the Project,

(e) implementing all PW Activities to be carried out within the District other than those which have been awarded to private contractors as provided in paragraph 7(b) above,

(f) supervision, monitoring and evaluation of PW Activities,

(g) preparing monthly financial reports and quarterly progress reports, and

(h) periodically informing MU and representatives of communities in the District on progress made in the implementation of PW Activities.

Part C of the Project

9. The Borrower shall maintain the technical working committee for poverty monitoring (the Technical Working Committee) established on July 12, 1995 to: (a) guide the development and design of the Borrower's poverty monitoring assessment system, (b) appraise research proposals, and provide guidance for the preparation of an annual economic and social report and (c) prepare the annual work program for the use of poverty monitoring support facility funds. The Technical Working Committee shall, unless otherwise agreed with the Association, be chaired by the Principal Secretary of MEPD, and comprise, inter alia, the coordinator of the Office of Poverty Alleviation Program, and representatives of the National Statistics Office, MOHP, MOWCACDSW, MOE, MOALD, Bunda College of Agriculture and the Director of the Center for Social Research, as members.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of (i) the reasonable cost of goods and services required for the Project (other than Part A.1) and (ii) Subprojects 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 \$3,000,000, 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 US\$2,000,000 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 SDR 10,000,000.

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 a deposit or deposits 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.

(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 respective eligible Categories, and in the respective 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 the 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 accounts 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, less the amount of any outstanding special commitment 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 the 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 the 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 the 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.

