

CONFORMED COPY

CREDIT NUMBER 2386 MAI

(Fifth Power Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated July 2, 1992

CREDIT NUMBER 2386 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated July 2, 1992, 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 Borrower intends to contract from European Investment Bank (EIB) a loan (the EIB Loan) in an amount of fifteen million European Currency Units (ECU 15,000,000) to assist in financing the Project on the terms and conditions set forth in an agreement (the EIB Loan Agreement) to be entered into between the Borrower and EIB;

(C) the Electricity Supply Commission of Malawi (ESCOM) intends to contract from the Commonwealth Development Corporation (CDC) a loan (the CDC Loan) in an amount equivalent to \$25,000,000 to assist in financing Part A of the Project on the terms and conditions set forth in an agreement (the CDC Loan Agreement) to be

entered into between ESCOM and CDC;

(D) the Borrower intends to contract from the African Development Bank (AfDB) a loan (the AfDB Loan) in an amount not exceeding the equivalent of \$30,000,000 to assist in financing Part A of the Project on the terms and conditions set forth in an agreement (the AfDB Loan Agreement) to be entered into between the Borrower and AfDB; and

(E) Part of the Project will be carried out by ESCOM with the Borrower's assistance and, as part of such assistance, the Borrower will make available to ESCOM part of the proceeds of the Credit as provided in this Agreement; 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 and in the Project Agreement of even date herewith between the Association and ESCOM;

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.

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) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated June 3, 1991 and June 17, 1991 between the Borrower and the Association;

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

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

(d) "Subsidiary Loan Agreement" means the agreement to be entered into between the Borrower and ESCOM pursuant to Section 3.01 (b) of this Agreement, as the same may be amended from time to time, and such term includes any schedules to the Subsidiary Loan Agreement;

(e) "ESCOM" means Electricity Supply Commission of Malawi, established pursuant to the Electricity Act, Cap. 73:01 of the Laws of Malawi;

(f) "EPD" means the Department of Economic Planning and Development;

(g) "PCC" means the Petroleum Control Commission established pursuant to the Petroleum Control Commission Act, Cap 50:08 of the Laws of Malawi;

(h) "TCC" means the Tobacco Control Commission established under Section 3 of the Control of Tobacco Auction Floors Act, Cap 65:03 of the Laws of Malawi;

(i) "IPPS" means the Borrower's investment program for the power sub-sector; and

(j) "Project Agreement" means the agreement between the

Association and ESCOM, of even date herewith, as the same may be amended from time to time, and such term includes all schedules and agreements supplemental to the Project Agreement.

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-nine million two hundred thousand Special Drawing Rights (SDR 39,200,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of Part A through E of the Project, open and maintain in United States Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 4 to this Agreement.

(c) The Borrower shall, for the purposes of Parts F through H of the Project, open and maintain in United States Dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be June 30, 1998 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 cancelled; 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 percent (3/4 of 1%) per annum on the principal amount of the Credit withdrawn and outstanding from time to time.

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

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each January 15 and July 15 commencing July 15, 2002 and ending January 15, 2032. Each installment to and including the installment payable on January 15, 2012 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:

- (i) shall carry out Parts F, G and H of the Project with due diligence and efficiency and in conformity with appropriate administrative and financial practices and shall provide, promptly as needed, the funds, facilities, services and other resources required for such Parts of the Project; and
- (ii) without limitation or restriction upon any of its other obligations under the Development Credit Agreement, the Borrower shall cause ESCOM to perform all its obligations set forth in the Project Agreement, shall take or cause to be taken all action, including the provision of funds, facilities, services and other resources, necessary or appropriate to enable ESCOM to

perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance.

(b) The Borrower shall relend an amount not exceeding the equivalent of fifty-three million seven hundred fifty thousand dollars (\$53,750,000) from the proceeds of the Credit to ESCOM under a subsidiary loan agreement to be entered into between the Borrower and ESCOM, under terms and conditions which shall have been approved by the Association which shall include repayment of principal in twenty years including a grace period of five (5) years, the payment of interest at the rate of 7.23% per annum and the foreign exchange risk to be borne by ESCOM.

(c) The Borrower shall exercise its rights under the Subsidiary Loan Agreement in such manner as to protect the interests of the Borrower and the Association and to accomplish the purposes of the Credit, and except as the Association shall otherwise agree, the Borrower shall not assign, amend, abrogate or waive the Subsidiary Loan Agreement or any provision thereof.

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. The Borrower and the Association hereby agree that the obligations set forth in Sections 9.03, 9.04, 9.05, 9.06, 9.07 and 9.08 of the General Conditions (relating to insurance, use of goods and services, plans and schedules, records and reports, maintenance and land acquisition, respectively) in respect of Parts A through E of the Project shall be carried out by ESCOM pursuant to Section 2.03 of the Project Agreement.

Section 3.04. (a) The Borrower shall cause EPD to supervise the implementation of Part F of the Project and the implementation, with effect from April 1, 1993, of the recommendations of the ongoing study on energy pricing taking due account of the Association's views on such recommendations; and

(b) The Borrower shall cause PCC and TCC to supervise the implementation of Parts G and H of the Project, respectively.

Section 3.05. The Borrower shall, until the completion of the Project:

(a) annually consult with the Association and ESCOM on the IPPS; and

(b) not cause ESCOM to undertake any capital investment in excess of five million dollars (\$5,000,000) equivalent for any one project not included in the IPPS unless the technical and economic justification of such project is satisfactory to the Association.

Section 3.06. The Borrower shall take all measures necessary to conclude, or to enable ESCOM to conclude, by not later than June 30, 1993 appropriate financing agreements for the carrying out of the transmission and distribution reinforcement works under Parts C and D of the Project.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of Parts F through H of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account B for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than nine months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope and in such detail as the Association shall have reasonably requested; and
- (iii) furnish to the Association such other information concerning 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 events are specified:

- (a) ESCOM shall have failed to perform any of its obligations under the Project Agreement.
- (b) As a result of events which have occurred after the date of the Development Credit Agreement, an extraordinary situation shall have arisen which shall make it improbable that ESCOM will be able to perform its obligations under the Project Agreement.
- (c) The Borrower shall have failed to provide the Association with evidence that the AfDB Loan Agreement has been duly executed by February 28, 1993.
- (d) The Electricity Act, Cap. 73:01 of the Laws of Malawi

shall have been amended, suspended, abrogated, repealed or waived so as to affect materially and adversely the ability of ESCOM to perform any of its obligations under the Project Agreement.

(e) The Borrower or any other authority having jurisdiction shall have taken any action for the dissolution or disestablishment of ESCOM or for the suspension of its operations.

(f) (i) Subject to subparagraph (ii) of this paragraph:

(A) The right of the Borrower or ESCOM, as appropriate, to withdraw the proceeds of any loan or grant made to the Borrower or ESCOM for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms thereof, or

(B) any such loan shall have become due and payable prior to the agreed maturity thereof.

(ii) Subparagraph (i) of this paragraph shall not apply if the Borrower or ESCOM establishes to the satisfaction of the Association that: (A) such suspension, cancellation, termination or premature ending is not caused by the failure of the Borrower or ESCOM to perform any of its obligations under such agreement; and (B) adequate funds for the Project are available to the Borrower or ESCOM from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 5.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional events are specified:

(a) any event specified in paragraph (a) of Section 5.01 of this Agreement shall occur and shall continue for a period of sixty days after notice thereof shall have been given by the Association to the Borrower; and

(b) any event specified in paragraphs (c), (d) and (e) of Section 5.01 of this Agreement shall occur.

ARTICLE VI

Effective Date; Termination

Section 6.01. The following events are specified as additional conditions to the effectiveness of the Development Credit Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the Subsidiary Loan Agreement has been executed on behalf of the Borrower and ESCOM; and

(b) all conditions precedent to the effectiveness of the EIB Loan Agreement and all conditions entitling ESCOM to make the first drawdown from the CDC Loan Agreement have been fulfilled, other than those related to the effectiveness of this Agreement.

Section 6.02. The following are specified as additional matters, within the meaning of Section 12.02 (b) of the General Conditions, to be included in the opinion or opinions to be furnished to the Association:

(a) that the Project Agreement has been duly authorized or ratified by ESCOM, and is legally binding upon ESCOM in accordance with its terms; and

(b) that the Subsidiary Loan Agreement has been duly

authorized or ratified by the Borrower and ESCOM and is legally binding upon the Borrower and ESCOM in accordance with its terms.

Section 6.03. 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

For the Association:

International Development Association
1818 H Street, N.W.
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/ Robert B. Mbaya
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ F. J. Aguirre-Sacasa
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) Civil Works under Parts A.1 and A.2 of the Project	23,270,000	100% of foreign expenditures
(2) Equipment and Vehicles:		100% of foreign expenditures
(a) office equip- ment under Part E.2 of the Project	330,000	
(b) vehicles and office equip- ment under Part H of the Project	245,000	
(3) Consultants' services:		100% of foreign expenditures
(a) under Part A.8 (a) of the Project	8,540,000	
(b) under Part A.8 (b) of the Project	100,000	
	Amount of the Credit Allocated (Expressed in SDR Equivalent)	% of Expenditures to be Financed
(c) under Part E (i) of the Project	1,070,000	
(d) under Part F (i) of the Project	256,000	
(e) under Part F (ii) of the Project	135,000	
(f) under Part G of the Project	155,000	
(g) under Part H of the Project	256,000	
(4) Refunding of Project Preparation Advance	715,000	Amount due pur- suant to Section 2.02 (d) of this Agreement
(5) Unallocated	4,128,000	
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TOTAL	39,200,000 =====	

2. For the purposes of this Schedule, 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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement; (b) payments made for expenditures in respect of Categories (1), (3) (a) and (3) (b), unless ESCOM has: (i) appointed a manager for Part A of the Project and (ii) established an environmental affairs unit pursuant to Section 3.04 (b) of the Project Agreement; and (c) payments made for expenditures in respect of Category (3) (e), unless EPD has appointed an additional senior economist to its Energy Division.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to meet the growing demand for power in a least cost manner through the construction of the Kapichira hydroelectric scheme and the rehabilitation of the existing power stations; (b) to improve the quality and efficiency of power supply through reinforcing the transmission and distribution systems to minimize outages and reduce losses; and (c) to strengthen the capability of energy sector institutions to plan and manage the energy sector.

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: Kapichira Hydroelectric Scheme

1. Construction of: (i) an access road from Chikwawa Village to Kapichira construction camp site; and (ii) camp facilities at the construction site, including provision of water supply and electricity.
2. Construction of (i) an 800 m long earth fill and composite earth-rock fill dam at Kapichira Falls provided with gated spillway; (ii) about 450 m long power canal and power intake; (iii) 2 steel penstocks; (iv) a power house to accommodate up to 5 generating units; (v) a tailrace; and (vi) a switchyard.
3. Two Francis turbines coupled to two generators each of about 25 MW capacity with associated electromechanical equipment and a power house crane.
4. Switchgear and control equipment for Kapichira Switchyard, including two approximately 30 MVA 11/132 Kv step up transformers; extension of substations at Tedzani and Blantyre West.
5. Construction of about 58 km of 132 kV single circuit transmission line from Kapichira Switchyard to Tedzani III. Diversion of existing 132 kV Nkula to Nchalo line at Kapichira into Kapichira Switchyard.
6. Extension of the existing SCADA system to include Kapichira, and upgrading as necessary the existing generation control microcomputer center at Nkula B and interface of the telemetry software with the existing systems.
7. Establishment of single channel power line carrier and telephone links to Kapichira to connect it to the existing system.
8. (a) Engineering services for the design and supervision of the hydroelectric scheme and administrative support to manage and administer the scheme; and (b) establishment of a panel of experts to review the design of the hydroelectric scheme and to advise on technical issues that may arise during construction.

Part B: Generation Rehabilitation

Improving the availability of the existing power plants through:

1. reconditioning or replacement of: (a) runners, guide vanes and the cooling system, and acquisition of essential spares for Tedzani I and II; and (b) provision of runner and essential spares for the Nkula B machines;
2. rehabilitation of the intake structure of the Nkula A, Nkula B and Tedzani power stations; and
3. acquisition of spares for the gas turbine and diesel power plants.

Part C: Transmission Reinforcement

Improving the reliability of the transmission system to the Northern Region through:

1. acquisition of tubular steel poles and steel cross-arms to replace the existing wood poles and wooden cross-arms on the 66 kV line from Salima to Chintheche and the 132 kV line from Salima to Lilongwe;
2. installation of the steel poles and cross-arms from Salima to Chintheche and from Salima to Lilongwe; and
3. construction of a control building and installation of a control system at Lilongwe, to improve data collection and storage, reduce outage times and facilitate operations.

Part D: Distribution Reinforcement

Improving the reliability of, and contributing to the loss reduction on, the distribution system through:

1. installation of about 23 MVA 66/33kV substation transformers at Zomba, Chirimba and Monkey Bay, and 10 MVA of 66/11 kV substation transformer at Limbe and 5 MVA of 33/11 kV at Ntcheu;
2. reconductoring of the 11 kV and low voltage systems in the Southern, Central and Northern regions; and
3. construction of 219 km of 33 kV, 230 Km of 11 kV, 120 km of low voltage overhead lines and underground cables; installation of 105 MVA of 33/0.4 kV and 250 MVA of 11/0.4 kV distribution transformers; provision of energy meters, autoreclosers and sectionalizers; and acquisition of about 320 vehicles for use mainly in the distribution systems.

Part E: Institutional Strengthening of ESCOM

1. Carrying out of studies to determine the least cost option for power supply after Kapichira.
2. Establishing a strategy for computerizing ESCOM's financial and technical operations through acquisition of one central computer system at ESCOM's headquarters and 18 microcomputers (one for each district of ESCOM's area of operations) to be linked through Lilongwe and Mzuzu to the headquarters.
3. Training of staff, including provision of training aids, to assist in building capacity to plan, manage and operate ESCOM's facilities and systems.

Part F: Energy Planning and Policy

- (i) A household energy strategy study to establish a firm data base for households' energy supply and demand, examine the supply and marketing of various forms of household energy, with emphasis on biomass, including substitution possibilities,

and recommend a household energy strategy; and

- (ii) consultants' services to assist EPD on energy matters including petroleum or coal exploration, conservation and demand management measures.

Part G: Petroleum Supply

1. Review current petroleum product procurement, transport and bulk storage arrangements and the legal framework of PCC.
2. Preparation of recommendations to reduce the cost of petroleum product supply.

Part H: Energy Efficiency

1. Demonstration of energy efficient barn designs for tobacco curing and introducing smallholders to practice the use of softwood charcoal as a substitute curing fuel.
2. Acquisition of vehicles and computer equipment.

* * *

The Project is expected to be completed by December 31, 1997.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

Except as provided in Part D hereof, goods and works shall be procured under contracts awarded in accordance with procedures consistent with those set forth in Sections I and II of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in May 1985 (the Guidelines).

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A hereof, goods manufactured in Malawi may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Preference for Domestic Contractors

In the procurement of works in accordance with the procedures described in Part A hereof, the Borrower may grant a margin of preference to domestic contractors in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraph 5 of Appendix 2 thereto.

Part D: Other Procurement Procedures

Contracts for spare parts for the hydroelectric plants, gas turbines and diesel power plants, which are proprietary in character may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

Part E: Review by the Association of Procurement Decisions

1. Review of invitations to bid and of proposed awards and final contracts:

(a) With respect to each contract estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special

Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 4 to this Agreement.

(c) The provisions of the preceding subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of expenditure.

2. The figure of 5% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower and ESCOM in carrying out the Project, the Borrower and ESCOM shall employ experts and consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such consultants shall be selected in accordance with principles and procedures satisfactory to the Association on the basis 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.

SCHEDULE 4

Special Account A

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1), (2) (a), (3) (a), (3) (b) and (3) (c) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Parts A through E of the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited into the Special Account pursuant to paragraph 3 (a) of this Schedule.

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; or

(b) 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.

SCHEDULE 5

Special Account B

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (2) (b), (3) (d), (3) (e), (3) (f) and (3) (g) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for Parts A through E of the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$250,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

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 in 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; or

(b) 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.



