

CONFORMED COPY

GRANT NUMBER H190-MAI

Development Grant Agreement

(Irrigation, Rural Livelihoods and Agricultural Development Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 5, 2005

GRANT NUMBER H190-MAI

DEVELOPMENT GRANT AGREEMENT

AGREEMENT, dated December 5, 2005, between REPUBLIC OF MALAWI (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Recipient its National Irrigation Policy and Development Strategy of June 2000, describing a program of objectives, policies and actions designed to promote participatory sustainable irrigation development;

(B) the Recipient, 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;

(C) the Recipient intends to obtain a loan in an amount equivalent to five million five hundred thousand Special Drawing Rights (SDR 5,500,000) (the IFAD Cofinancing) from the International Fund for Agricultural Development (IFAD) to assist in financing the Project on the terms and conditions set forth in an agreement to be entered into between the Recipient and IFAD (the Fund Loan Agreement); and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The “General Conditions Applicable to Development Credit Agreements” of the Association, dated January 1, 1985 (as amended through May 1, 2004), with the modifications set forth in Schedule 6 to this Agreement (the General Conditions), constitute an integral part of this Agreement.

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

(a) “Beneficiary” means a FBO that has met the eligibility criteria set out in the PIM and the requirements of Schedule 4 to this Agreement and as a result has received, or is entitled to receive, a Micro-Grant for the implementation of a Micro-Grant Subproject under Parts A.2, A.4, B.1 and B.3 of the Project, as set forth in Schedule 2 of this Agreement;

(b) “District” means an administrative area established pursuant to Section 2 (2) of the Recipient’s District Boundaries and Place Names Act, Chapter 18:04 of the laws of the Recipient, as amended, representing a designated area and population within the territory of the Recipient;

(c) “District Assembly” means an assembly established pursuant to Section 5 of the Recipient’s Local Government Act, Chapter 22:01 of the laws of the Recipient, as amended;

(d) “Eligible Categories” means Categories (1), (2), (3), (4), 5 (a) (i) and (6) set forth in the table in Part A.1 of Schedule 1 to this Agreement in respect of Parts A.1, A.3, A.4, C and D of the Project as set forth in Schedule 2 of this Agreement, to be implemented by MOA/MOIWD, and Categories 5 (a) (ii) and 5 (b) set forth in the table in Part A.1 of Schedule 1 to this Agreement in respect of Parts A.2 and B of the Project as set forth in Schedule 2 of this Agreement, to be implemented by MASAF;

(e) “Eligible Expenditures” means the expenditures for goods, works and services referred to in Section 2.02 (a) of this Agreement;

(f) “Environmental and Social Impact Assessment” or “ESIA” means the document dated February 8, 2005, prepared by the Recipient and approved by the Association, to identify potential negative environmental and social impacts of the Project and to establish measures to mitigate such negative impact, as the same may be amended from time to time with the concurrence of the Association;

(g) “Environmental and Social Management Framework” or “ESMF” means the document dated February 8, 2005, prepared by the Recipient and approved by the Association, outlining the environmental and social screening procedures to be followed during implementation of Subprojects, including potential environmental and social risks, adverse impacts, and proposed mitigation measures, as the same may be amended from time to time with the concurrence of the Association;

(h) “Farmer Based Organization” or “FBO” means a farmers’ group: (a) established and registered pursuant to the Recipient’s Cooperatives Act, Chapter 47:01 of the laws of the Recipient, as amended, or the Trustees Incorporation Act, Chapter 5:03 of the laws of the Recipient, as amended; or (b) that is recognized by the MOA or the District Assembly or such other party as may be agreed upon with the Association, and has a PMC;

(i) “Farmer Services and Livelihood Fund” or “FSLF” means the fund referred to in Part B of Schedule 2 to this Agreement;

(j) “Fiscal Year” or “FY” 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;

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

(l) “Inputs for Assets Program” means the program to be implemented under Part B.2 of the Project as set forth in Schedule 2 of this Agreement, whereby a community member provides labor for the implementation of an approved Public Works Subproject in exchange for agricultural inputs such as seeds and fertilizer, as an “in-kind” payment for services rendered;

(m) “MASAF” means Malawi Social Action Fund established as of July 1, 1995, within the Recipient’s Office of the President and Cabinet;

(n) “MASAF Special Account” means the account referred to in Part B.1 of Schedule 1 to this Agreement;

(o) “Micro-Grant” means a grant to be made out of the proceeds of the Grant to finance Micro-Grant Subprojects under Parts A.2, A.4, B.1 and B.3 of the Project, as set forth in Schedule 2 of this Agreement;

(p) “Micro-Grant Agreement” means an agreement to be entered into between the District Assembly and a Beneficiary for the provision of a Micro-Grant in accordance with the provisions of paragraph 12 of Schedule 4 to this Agreement;

(q) “Micro-Grant Subproject” means a specific activity financed or to be financed from Micro-Grants provided under Parts A.2, A.4, B.1 and B.3 of the Project, as set forth in Schedule 2 of this Agreement;

(r) “MOA” means the Recipient’s Ministry of Agriculture;

(s) “MOIWD” means the Recipient’s Ministry of Irrigation and Water Development;

(t) “MOA Special Account” means the account referred to in Part B.1 of Schedule 1 to this Agreement;

(u) “MOU” means the memorandum of understanding to be entered into between the MOA, MASAF and the District Assemblies of each of the Participating Districts, except the Districts of Balaka, Machinga, Karonga and Nkhotakota, setting forth the implementation arrangements for Parts A.2 and B of the Project, as set forth in Schedule 2 of this Agreement;

(v) “Participating Districts” means the following Districts established pursuant to the Recipient’s Local Government Act, as amended: Blantyre, Chikwawa, Nsanje, Phalombe, Zomba, Dedza, Lilongwe, Salima, Chitipa, Nkhata Bay, and Rumphu, and for purposes of Part C.1 (b) of Schedule 2 of this Agreement, the Districts of Balaka, Machinga, Karonga and Nkhotakota supported by the IFAD funded Small Holder Flood Plains Development Program;

(w) “Procurement Plan” means the Recipient’s procurement plan, dated October 7, 2005, covering the initial 18-month period of Project implementation, as the same shall be updated from time to time in accordance with the provisions of Section 3.02 to this Agreement, to cover succeeding 18-month periods (or longer) of Project implementation;

(x) “Project Implementation Manual” or “PIM” means the collective manual prepared by the Recipient setting forth the implementation arrangements for the Project covering *inter alia* the Micro-Grants and Inputs for Assets Programs including, as the case may be, the process and criteria for identifying and mobilizing communities and WUAs, and their respective roles and responsibilities, procurement, financial management, monitoring and evaluation, and environmental and social safeguard procedures, referred to in paragraph 7 of Schedule 4 to this Agreement;

(y) “Project Coordination Unit” or “PCU” means the unit to be established by the Recipient within the MOA for overseeing and coordinating the day-to-day implementation of the Project, referred to in paragraphs 5 and 6 of Schedule 4 to this Agreement;

(z) “Project Executive Committee” means the committee established by the Recipient to provide technical guidance during Project implementation, referred to in paragraphs 3 and 4 of Schedule 4 to this Agreement;

(aa) “Project Management Committee” or “PMC” means a committee established by an unregistered FBO for purposes of Micro-Grant Subproject implementation comprising duly elected office bearers and meeting such other criteria as set forth in paragraph 11 of Schedule 4 of this Agreement and in the PIM;

(bb) “Project Preparation Advance” means the project preparation advance granted by the Association to the Recipient pursuant to the letter agreement signed on behalf of the Association on September 23, 2004, and on behalf of the Recipient on October 2, 2004;

(cc) “Project Steering Committee” means the committee to be established by the Recipient to provide oversight and strategic guidance during Project implementation and referred to in paragraphs 1 and 2 of Schedule 4 to this Agreement;

(dd) “Public Works Subproject” means a specific labor intensive investment activity to be implemented under the Inputs for Assets Program under Part B.2 of the Project, as set forth in Schedule 2 of this Agreement;

(ee) “RPF” or “Resettlement Policy Framework” means the governing framework for land acquisition, resettlement and compensation that forms part of the Project’s ESMF, and in accordance with which resettlement action plans will be prepared and submitted to the Association for its approval, as the same may be amended from time to time with the concurrence of the Association;

(ff) “Special Account” means each of the accounts referred to in Part B of Schedule 1 to this Agreement;

(gg) “Special Accounts” means the MASAF and the MOA Special Accounts, collectively;

(hh) “Subprojects” means the Micro-Grant Subprojects and Public Works Subprojects, collectively; and

(ii) “WUA” or “Water User Association” means any local community organization established for the purpose of promoting local participation in the development and management of irrigation and includes any irrigation scheme, club, cooperative or association.

ARTICLE II

The Grant

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, an amount in various currencies equivalent to twenty-seven million six hundred thousand Special Drawing Rights (SDR27,600,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant 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, works and services required for Parts A.1, A.3, C and D of the Project and to be financed out of the proceeds of the Grant; and (ii) amounts paid (or, if the Association shall so agree, amounts to be paid) by the Recipient on account of withdrawals made under the Subprojects under Parts A.2, A.4, and B of the Project to meet the reasonable cost of goods, works and services, in respect of which the withdrawal from the Grant Account is requested.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant 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 June 30, 2012, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant 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 Recipient from the Grant Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date and at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above. The rate set as of June 30 in each year shall be applied from the next date in that year specified in Section 2.06 of this Agreement.

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

Section 2.05. Commitment charges shall be payable semiannually on June 15 and December 15 in each year.

ARTICLE III

Execution of the Project

Section 3.01. (a) The Recipient 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: (i) Parts A.1, A.3, A.4, C and D of the Project through MOA/MOIWD; and (ii) Parts A.2 and B through MASAF, all with due diligence and efficiency and in conformity with appropriate administrative, agricultural, engineering, financial, social and environmental practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. (a) Except as the Association shall otherwise agree, procurement of the goods, works and services required for the Project and to be financed out of the proceeds of the Grant shall be governed by the provisions of Schedule 3 to this Agreement, as said provisions may be further elaborated in the Procurement Plan.

(b) The Recipient shall update the Procurement Plan in accordance with guidelines acceptable to the Association, and furnish such update to the Association not later than 12 months after the date of the preceding Procurement Plan, for the Association's approval.

Section 3.03. For the purposes of Section 9.06 of the General Conditions and without limitation thereto, the Recipient 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 Recipient 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 Recipient on said plan.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Recipient shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

- (i) have the financial statements referred to in paragraph (a) of this Section (balance sheets, statements of income and expenses and related statements) for each Fiscal Year (or other period agreed to by the Association), audited, in accordance with consistently applied auditing standards acceptable to the Association, by independent auditors acceptable to the Association;
- (ii) furnish to the Association as soon as available, but in any case not later than six months after the end of each such year (or such other period agreed to by the Association); (A) certified copies of the financial statements referred to in paragraph (a) of this Section for such year (or other period agreed to by the Association), as so audited; and (B) an opinion on such statements by said auditors, in scope and detail satisfactory to the Association; and
- (iii) furnish to the Association such other information concerning such records and accounts, and the audit of such financial statements, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements) or on the basis of statements of expenditure, the Recipient shall:

- (i) retain, until at least one year after the Association has received the audit report for, or covering, the Fiscal Year in which the last withdrawal from the Grant Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports and statements of expenditure are included in the audit for each Fiscal Year (or other period agreed to by the Association referred to in paragraph (b) of this Section.

Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraphs 6 (b) and 18 of Schedule 4 to this Agreement, the Recipient shall prepare and furnish to the Association a Financial Monitoring Report, in form and substance satisfactory to the Association, which:

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

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

ARTICLE V

Remedies of the Association

Section 5.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional event is specified, namely, that the Fund Loan Agreement shall have failed to become effective by March 31, 2006, or such later date as the Association may agree, provided, however, that the provisions of this paragraph shall not apply if the Recipient establishes to the satisfaction of the Association that adequate funds for the Project are available to the Recipient from other sources on terms and conditions consistent with the obligations of the Recipient under this Agreement.

ARTICLE VI

Effective Date; Termination

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

(a) The Recipient has established the PCU and appointed thereto staff with terms of reference, qualifications and experience satisfactory to the Association including a Project coordinator/irrigation engineer, a social/community development specialist, a procurement specialist, an accountant, two internal auditors and a monitoring and evaluation specialist;

(b) The Recipient has prepared and adopted the PIM in a form and substance that is satisfactory to the Association;

(c) The MOA has entered into a MOU with MASAF and the District Assemblies of each of the Participating Districts, except the Districts of Balaka, Machinga, Karonga and Nkhonkhotakota, that is satisfactory to the Association; and

(d) The Recipient shall have established the Project Steering Committee in accordance with the provisions of paragraph 1 of Schedule 4 to this Agreement.

Section 6.02. The date ninety (90) days after the date of this Agreement is hereby specified for the purposes of Section 12.04 of the General Conditions.

ARTICLE VII

Representative of the Recipient; Addresses

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

Minister of Finance
Ministry of Finance
P.O. Box 30049
Lilongwe 3
Malawi

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

For the Association:

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) or 64145 (MCI)	(202) 477-6391

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

REPUBLIC OF MALAWI

By /s/ Goodall Gondwe

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Hartwig Schafer

Authorized Representative

SCHEDULE 1

Withdrawal of the Proceeds of the Grant

A. General

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Works for Parts A.1 and A.3 of the Project	4,650,000	83%
(2) Goods	1,040,000	83%
(3) Consultants' Services	5,200,000	83%
(4) Workshops and Training	720,000	83%
(5) (a) Micro-Grant Subprojects under Parts A.2, A.4, and B.1 and B.3 of the Project		83%
(i) MOA/MOIWD	1,290,000	
(ii) MASAF	2,100,000	
(b) Public Works Subprojects under Part B.2 of the Project	9,000,000	83%
(6) Operating Costs	1,500,000	83%

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(7) Refunding of Project Preparation Advance	420,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(8) Unallocated	1,680,000	
TOTAL	<u>27,600,000</u>	

2. For the purposes of this Schedule, the term “Operating Costs” means incremental recurrent expenditures incurred on account of the Project implementation including office supplies, fuel and maintenance of vehicles, maintenance of equipment, telephone and other communications charges, office rent and insurance for vehicles, motorcycles and office equipment and furniture, bank and services fees, and travel costs, but excluding salaries of officials of the Recipient’s civil service.

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 Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$150,000 equivalent per contract; (b) works costing less than \$350,000 equivalent per contract; (c) services of individual consultants costing less than \$50,000 equivalent per contract; (d) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (e) workshops and training; (f) Subprojects; and (g) Operating Costs, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. The Recipient may request withdrawals from the Grant Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Grant Account, the Recipient shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the six-month period following the date of such request.

B. Special Accounts

1. The Recipient may open and maintain in Dollars two special deposit accounts (MOA Special Account and MASAF Special Account) in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the respective Special Account has been opened, withdrawals from the Grant Account of amounts to be deposited into the respective Special Account shall be made as follows:

(a) if the Recipient is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the respective Special Account shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the respective Special Account, the Recipient 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into any Special Account:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the Grant Account; or

(c) if the Recipient 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: (A) the records and accounts for the Special Account; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into any Special Account in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to

Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the respective Special Account may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Association determines at any time that any payment out of any Special Account was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the respective Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into any Special Account shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in any Special Account will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Grant Agreement.

Annex A

to

SCHEDULE 1

**Operation of Special Accounts
When Withdrawals Are Not
Report-based Disbursements**

1. The term “Authorized Allocation” means an amount equivalent to \$2,150,000, in respect of the MOA Special Account for Parts A.1, A.3, A.4, C, and D of the Project and an amount equivalent to \$1,450,000, in respect of the MASAF Special Account for Parts A.2 and B thereof, to be withdrawn from the Grant Account and deposited into the respective Special Account pursuant to paragraph 3 (a) of this Schedule, provided, however, that unless the Association shall otherwise agree, the Authorized Allocation shall be limited to an amount equivalent to \$1,075,000, in respect of the MOA Special Account and an amount equivalent to \$725,000, in respect of the MASAF Special Account until: (i) in respect of the MOA Special Account the aggregate amount of withdrawals from the Grant Account allocated to Categories (1), (2), (3), (4) (5) (a) (i) and (6) 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 SDR5,000,000; and (ii) in respect of the MASAF Special Account, the aggregate amount of withdrawals from the Grant Account allocated to Category 5 (a) (ii) and (5) (b) plus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions for Parts A.2 and B of the Project shall be equal to or exceed the equivalent of SDR3,000,000.

2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Association a request or requests for deposit into the respective Special Account of an amount or amounts, which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the respective Special Account such amount as the Recipient shall have requested.

(b) For replenishment of the Special Accounts, the Recipient shall furnish to the Association requests for deposit into the respective Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement 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 Recipient, withdraw from the Grant Account and deposit into the respective Special Account such amount as the Recipient 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. Each such deposit into the respective Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.

3. The Association shall not be required to make further deposits into any Special Account, once the total unwithdrawn amount of the Grant minus the total amount of all outstanding special commitments entered into by the Association pursuant to Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the Authorized Allocation. Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Association shall specify by notice to the Recipient. 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 respective Special Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

Annex B

to

SCHEDULE 1

**Operation of Special Accounts
When Withdrawals Are
Report-based Disbursements**

1. Withdrawals from the Grant Account shall be deposited by the Association into the Special Accounts in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the respective Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.
2. Upon receipt of each application for withdrawal of an amount of the Grant, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the six-month period following the date of such reports.

SCHEDULE 2

Description of the Project

The objectives of the Project are to: (a) increase agricultural productivity and net incomes of approximately 196,550 poor rural households in the Participating Districts; and (b) strengthen the Recipient's institutional capacity for long-term irrigation development.

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

Part A Irrigation Rehabilitation and Development

1. (a) Rehabilitation of small-scale irrigation schemes including improvements to river off-takes, diversion weirs, and canal and drainage structures, cleaning, re-shaping and repair of existing canals, provision of spot lining to reduce seepage losses in canals, pipe outlets, and water control and management structures, and repairs to flood protection bunds and drains; (b) rehabilitation of related civil works, including buildings; and (c) development of new small-scale irrigation schemes.
2. Implementation of Micro-Grant Subprojects for the development of mini-irrigation schemes.
3. Rehabilitation of small reservoirs.
4. Implementation of Micro-Grant Subprojects for the development of small-scale rainwater harvesting structures for crops, livestock, and other agricultural activities integrated with sustainable management of soil conservation and soil fertility.

Part B Farmer Services and Livelihoods Fund (FSLF)

1. Implementation of Micro-Grant Subprojects to provide Beneficiaries with training in *inter alia* irrigation agronomy, soil and water management, and pest management.
2. Development of community assets including roads, reforestation of customary lands, construction of water harvesting and soil conservation structures, through the implementation of Public Works Subprojects under the Inputs for Assets Program, and provision of agricultural inputs such as seeds and fertilizer as "in-kind" payments to community members involved in construction of the said Subprojects.

3. Implementation of Micro-Grant Subprojects to assist Beneficiaries with marketing services and the creation of post-harvest assets such as storage and collection centers, and cooling and agro-processing units.

Part C Institutional Development

1. Provision of: (a) technical advisory services to assist the Recipient in the establishment of an irrigation water management unit in the Recipient's MOIWD, WUAs, and irrigation advisory services at the District level; (b) training to WUAs; and (c) preparation of regulations for the Recipient's Irrigation Act of 2001.

2. Provision of technical advisory services and goods to strengthen the Trade and Marketing Unit and the Agricultural Marketing Information Service (AMIS) within the MOA.

3. Provision of support to Bunda College, the Natural Resources College, and the MOA in irrigation and agronomy training including technical advisory services, goods, and training materials.

4. Provision of organizational support and capacity building activities to farmers through: (a) undertaking community mobilization; and (b) providing training on *inter alia* group dynamics, leadership, business plan preparation, record keeping and project management.

Part D Project Coordination, Monitoring and Evaluation

Provision of operational support to the PCU for Project management, implementation, coordination, and monitoring and evaluation including technical advisory services, goods, training and Operating Costs.

* * *

The Project is expected to be completed by December 31, 2011.

SCHEDULE 3

Procurement

Section I. General

A. All goods, works and services (other than consultants' services) shall be procured in accordance with the provisions of Section I of the "Guidelines: Procurement under IBRD Loans and IDA Credits" dated May 2004 (the Procurement Guidelines), and with the provisions of this Schedule.

B. All consultants' services shall be procured in accordance with Sections I and IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" dated May 2004 (the Consultant Guidelines), and with the provisions of this Schedule.

C. The capitalized terms used below in this Schedule to describe particular procurement methods or methods of review by the Association of particular contracts, have the meanings ascribed to them in the Procurement Guidelines, or Consultant Guidelines, as the case may be.

Section II. Particular Methods of Procurement of Goods, Works and Services (other than Consultants' Services)

A. International Competitive Bidding. Except as otherwise provided in Part B of this Section, contracts shall be awarded on the basis of International Competitive Bidding. The provisions of paragraphs 2.55 and 2.56 of the Procurement Guidelines, providing for domestic preference in the evaluation of bids, shall apply to goods manufactured in the territory of the Recipient and works to be carried out by domestic contractors.

B. Other Procurement Procedures

1. National Competitive Bidding. Goods estimated to cost less than \$150,000 equivalent per contract and works estimated to cost less than \$1,500,000 equivalent per contract, may be procured under contracts awarded on the basis of National Competitive Bidding.

2. Shopping. Goods and works estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of Shopping.

3. Direct Contracting. Goods and works which the Association agrees meet the requirements for Direct Contracting may be procured in accordance with the provisions of said procurement method.

4. Procurement from UN Agencies. Goods estimated to cost less than \$50,000 equivalent per contract may be procured directly from the United Nations Inter-Agency Procurement Services Office in accordance with the provisions of paragraphs 3.1 and 3.9 of the Procurement Guidelines.
5. Force Account. Works which the Association agrees meet the requirements for Force Account may be carried out in accordance with the provisions of said procurement method.
6. Community Participation. Goods, works and services required for Parts A.2, A.4 and B of the Project may be procured on the basis of community participation in accordance with procedures acceptable to the Association and further specified in the PIM.

Section III. Particular Methods of Procurement of Consultants' Services

A. Quality- and Cost-based Selection. Except as otherwise provided in Part B of this Section, consultants' services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection. For purposes of paragraph 2.7 of the Consultant Guidelines, the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract may comprise entirely of national consultants.

B. Other Procedures

1. Least-cost Selection. Services for assignments which the Association agrees meet the requirements of paragraph 3.6 of the Consultant Guidelines may be procured under contracts awarded on the basis of Least-cost Selection in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications. Services estimated to cost less than \$100,000 equivalent per contract may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1, 3.7 and 3.8 of the Consultant Guidelines.

3. Single Source Selection. Services for tasks in circumstances which meet the requirements of paragraph 3.10 of the Consultant Guidelines for Single Source Selection, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.9 through 3.13 of the Consultant Guidelines.

4. Individual Consultants. Services for assignments that meet the requirements set forth in the first sentence of paragraph 5.1 of the Consultant Guidelines may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.2 through 5.3 of the Consultant Guidelines. Under the circumstances described in paragraph 5.4 of the Consultant Guidelines, such contracts may be awarded to individual consultants on a sole-source basis.

Section IV. Review by the Association of Procurement Decisions

Except as the Association shall otherwise determine by notice to the Recipient, the following contracts shall be subject to Prior Review by the Association: (a) each contract for goods estimated to cost the equivalent of \$150,000 or more; (b) each contract for works estimated to cost the equivalent of \$350,000 or more; (c) each contract for consultants' services provided by an individual estimated to cost the equivalent of \$50,000 or more; and (d) each contract for consultants' services provided by a firm estimated to cost the equivalent of \$100,000 or more. All other contracts shall be subject to Post Review by the Association.

SCHEDULE 4

Implementation Program

I. Overall Project Oversight

Project Steering Committee

1. Composition. The Recipient shall maintain at all times during the implementation of the Project a Project Steering Committee which shall be chaired by the Principal Secretary for the MOA and include the Principal Secretaries from the Ministries of Irrigation and Water Development, Finance, Economic Planning and Development, Local Government and Rural Development, Land, Physical Planning and Surveys, Trade and Private Sector Development, the Director of Planning, MOA, and the Executive Director of MASAF. The Project coordinator shall serve as the secretary to the Project Steering Committee.

2. Role. The Project Steering Committee shall provide overall strategic guidance and inter-ministerial coordination for the implementation of the Project. Without limitation to the generality of the foregoing, the Project Steering Committee shall approve Project semi-annual and annual work plans and budgets, and review quarterly, semi-annual and annual implementation reports, including audit reports.

Project Executive Committee

3. Composition. The Recipient shall establish and maintain at all times during the implementation of the Project a Project Executive Committee which shall be chaired by Project coordinator and include representatives of the MOA/MOIWD, MASAF, Participating Districts, and the four outreach offices located in the Agricultural Development Divisions in Chikwawa, Zomba, Lilongwe and Mzuzu.

4. Role. The Project Executive Committee shall provide technical guidance during Project implementation, including reviewing semi-annual and annual work plans and budgets and making attendant recommendations to the Project Steering Committee, and carrying out monitoring and evaluation of Project implementation.

II. Project Administration and Management

Project Coordination Unit

5. Staff Composition. The Recipient shall maintain the PCU throughout Project implementation, adequately staffed with persons with terms of reference, qualifications and experience that are satisfactory to the Association, including a Project coordinator/irrigation engineer, social/community development specialist, a procurement

specialist, an accountant, two internal auditors, and a monitoring and evaluation specialist.

6. Role. The PCU shall be responsible for overseeing and coordinating day-to-day implementation of the Project and to this end shall work closely with MASAF for purposes of Parts A.2 and B of the Project. Without limitation on the generality of the foregoing, the PCU shall carry out tasks that shall include: (a) preparation of semi-annual and annual workplans with input from MASAF; (b) preparation of FMRs, semi-annual and annual progress reports incorporating input from MASAF and subsequent submission of such reports to the Association in a timely manner; (c) procurement for Parts A.1, A.3, A.4, C and D of the Project; (d) internal audits of the Project including a semi-annual systems review, to be carried out in accordance with the PIM.

Project Implementation Manual and MOU

7. The Recipient shall ensure that the Project is implemented in accordance with the PIM and the MOU, and except as the Association shall otherwise agree, shall not waive any provisions of the said PIM or MOU, if such amendment or waiver would in the opinion of the Association materially or adversely affect Project implementation.

8. Irrigation Engineers and Water Management Specialists

The Recipient shall ensure that an irrigation engineer and a water management specialist are hired in each of the Participating Districts other than the Districts of Balaka, Machinga, Karonga and Nkhotakota by July 31, 2006, or such later date as may be agreed with the Association.

III. Environmental and Social Measures

9. Except as the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the ESIA, ESMF, and RPF, and shall not amend or waive, or permit to be amended or waived, the ESIA, ESMF, and RPF or any provisions thereof in a manner which, in the opinion of the Association, may materially and adversely affect the implementation of Project.

IV. Irrigation schemes under Part A.1 of the Project

10. The Recipient shall ensure that: (a) the legal framework governing the establishment and operations of WUAs including the Irrigation Act regulations referred to in Part C.1 (c) of Schedule 2 to this Agreement are finalized within one year of the Project's Effective Date, or such later date as may be agreed upon with the Association; (b) irrigation scheme transfer agreements are duly entered into with WUAs prior to the rehabilitation of small-scale irrigation schemes under Part A.1 of the Project. The Recipient shall also facilitate, in a timely manner, the finalization of suitable land tenure arrangements with respect to the land on which such irrigation schemes are situated.

V. Procedures and Eligibility Criteria for Micro-Grant Subprojects under Parts A.2, A.4, B.1 and B.3 of the Project

11. The Recipient shall ensure that Micro-Grants are provided in accordance with the procedures and eligibility criteria set forth in the PIM. Without limitation to the generality of the foregoing, the Recipient shall ensure that all unregistered FBOs establish PMCs which shall represent the interests of the Beneficiary in the implementation of Micro-Grant Subprojects including: (a) preparation of a constitution to govern matters relating to the operations of the Micro-Grant Subprojects in accordance with the model set out in the PIM with the assistance of the social/community development specialist in the PCU and participating non-governmental organizations, as needed; (b) opening and management of the Micro-Grant Subproject Account; and (c) ensuring that members of the FBO are permanent residents of the local area and represent different households.

12. Without limitation to the generality of the foregoing, a Micro-Grant shall only be provided after a Micro-Grant Agreement is signed between the District Assembly and the Beneficiary under terms and conditions that are satisfactory to the Association, including:

(a) the Beneficiary's obligation to carry out the Micro-Grant Subproject to be financed by the Micro-Grant in accordance with the PIM, 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 Micro-Grant;

(b) the requirement that: (i) goods, works and services to be financed from the proceeds of the Micro-Grant for the Micro-Grant Subprojects 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 implementation of the Micro-Grant Subprojects in accordance with the PIM;

(c) the right of the District Assembly, MOA, or MASAF, as the case may be, to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites, plants and construction financed by the Micro-Grant, the operations thereof and any relevant records and documents;

(d) the right of the District Assembly, MOA or MASAF, as the case may be, to obtain all information as the District Assembly, MOA, MASAF or the Association shall reasonably request regarding the administration, operation and financial conditions of the Micro-Grant Subprojects; and

(e) the right of the District Assembly, MOA or MASAF, as the case may be, to suspend or terminate the right of the Beneficiary to use the proceeds of the

Micro-Grant upon the failure by the Beneficiary to comply with the Micro-Grant Agreement.

VI. Procedures and Eligibility Criteria for Public Works Subprojects under Part B.2 of the Project

13. The MASAF shall ensure that the Input for Assets Program is carried out in accordance with the procedures and eligibility criteria set forth in the PIM including the requirement that fifty per cent (50%) of the total Grant amount allocated to the Public Works Subprojects must be used for “in-kind” payments to community members in the form of agricultural inputs for construction work undertaken under the said Subprojects.

14. The District Assembly will implement the Input for Assets Program. In exceptional circumstances, the District Assembly may contract non-governmental organizations to carry out such implementation after consulting with the PCU. In order to be eligible to participate in the Project, the non-governmental organizations must meet criteria that shall include the following: (a) proven expertise in comparable community development activities within the territory of the Recipient and in participatory project design and implementation; (b) proven technical expertise in the area of intervention; (c) adequate financial and administrative capacity; and (d) compliance with registration requirements under the laws of the Recipient.

VII. Semi-annual and annual work plans

15. The Recipient shall ensure that semi-annual and annual work plans are prepared by the PCU in collaboration with MASAF during each year of Project implementation and submit to the Association for its review and subsequent approval each annual workplan by March 1 of each calendar year.

VIII. Agricultural Marketing Information Service under Part C.2 of the Project

16. The Recipient shall ensure that the AMIS shall be restructured by the Project’s mid-term review referred to in paragraph 18 below, to include the following three functions/services:

(a) The AMIS. This function preserves the original mandate of the AMIS of conducting farm-gate and retail prices, input and livestock surveys, crop estimates, vulnerability assessments, land resource mapping, and providing food security related information to stakeholders.

(b) The Market Information Service. This service specializes in gathering, generating, processing and storing product and market specific information. In addition to the domestic price information fed by the Agriculture Information Service (AIS), this service shall compile regional and international market information and intelligence as it relates to the crops grown in the Participating Districts, except the

Districts of Balaka, Machinga, Karonga, and Nkhotakota. This service shall benefit from the research outcomes of the Policy Analyses, Product Research and Market Research Sections.

(c) Dissemination Service. This service draws on the output of the AIS and AMIS and provides dissemination services. It prepares publications and brochures, and organizes dissemination through radio programs, newspapers, bulletins, workshops, and via the internet.

17. The Recipient shall ensure that the following staff are appointed to the Marketing Development Unit/AMIS, within one year of the Grant Effective Date:

(a) a marketing information expert for a period of one year to develop the AMIS by elaborating its core and peripheral functions, developing an agricultural marketing system, establishing linkages with other market information, and a training program for the staff of the AMIS. The consultant shall ensure the outputs of the AMIS are closely aligned with the information needs of the smallholder sector, particularly in the Participating Districts, except the Districts of Balaka, Machinga, Karonga, and Nkhotakota; and

(b) a database expert for a period of three (3) months to build the database of the AMIS based on the agricultural marketing system developed by the marketing information expert referred to in 17 (a) above.

IX. Project Monitoring and Evaluation

Mid-term Review

18. The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with the indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about December 31, 2008, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date taking into account *inter alia*, issues relating to gender; and

(c) review with the Association, by February 28, 2009, or such later date as the Association shall request, the report referred to in paragraph (b) of this Section, and,

thereafter, take all measures required to ensure the efficient completion of the Project and the achievement of the objectives thereof, based on the conclusions and recommendations of the said report and the Association's views on the matter.

SCHEDULE 5

Performance Indicators

The performance indicators for the Project shall include the following, said indicators being subject to modifications by agreement between the Recipient and the Association:

1. Approximately 2,600 hectares effectively served by improved efficiency and reliability of delivery of irrigation water in rehabilitated and new schemes, benefiting 10,200 farm households organized in WUAs.
2. Approximately 400 group water harvesting civil structures constructed and operational, comprising 100 livestock water storage structures, 100 group backyard structures, 100 soil storage and new measures, and 100 catchment/land conservation structures, resulting in soil conservation and fertility regeneration measures in micro-catchments, benefiting 9,000 farm households organized as FBOs.
3. Approximately 191,000 households benefiting from employment, inputs and rural asset creation under the Input for Assets Program.
4. Approximately 24,000 farm households benefiting from the FSLF in the form of post-harvest assets, marketing and extension services.
5. Capacity has been built for farmers benefiting at least 7,000 farm households, implementing staff, service providers and institutions.
6. Improved cropping intensity by 30%, agricultural productivity by 50%, and farm incomes by 30% in the irrigated areas.

SCHEDULE 6

Modifications to the General Conditions

For the purpose of this Agreement, the provisions of the General Conditions are modified as follows:

1. Sections 3.02, 3.03, 3.04(a), 3.04(b), 6.05 and Article VII are deleted in their entirety.
2. Wherever used in the General Conditions, the following terms are modified to read as follows:
 - (a) The term “Borrower” is modified to read “Recipient”.
 - (b) The term “Credit” is modified to read “Grant”.
 - (c) The term “Credit Account” is modified to read “Grant Account”.
 - (d) The term “Development Credit Agreement” is modified to read “Development Grant Agreement”.
3. Section 1.01 is modified to read as follows:

“Section 1.01. Application of General Conditions

These General Conditions set forth the terms and conditions generally applicable to the Development Grant Agreement to the extent and subject to any modifications set forth in such agreement.”
4. Paragraph 3 of Section 2.01 is modified to read as follows:

“3. “Recipient” means the party to the Development Grant Agreement to which the Grant is made.”
5. Article III is modified as follows:
 - (a) The heading of Article III is modified to read “Grant Account; Partial Payment”, and the heading of Section 3.04 is modified to read “Partial Payment”.
 - (b) The words “The principal of, and service charges on, the Credit” in Section 3.05 are modified to read “All amounts required to be paid under the Development Grant Agreement”.

6. Article IV is modified as follows:

(a) Section 4.02(a) is modified to read as follows:

“Section 4.02. *Currencies in which Payments are to be Made*

(a) The Recipient shall pay all amounts required to be paid by it under the Development Grant Agreement in the currency specified in such agreement or in such other eligible currency or currencies as may from time to time be designated or selected pursuant to paragraph (c) or (e) of this Section.”

(b) Wherever used in Section 4.02(c) and (e) of the General Conditions, the words “principal and service charges” are modified to read “amounts”.

(c) Section 4.03 is modified to read as follows:

“Section 4.03. *Amount of the Grant*

The amount of the Grant withdrawn from time to time shall be the equivalent in terms of SDR (determined as of the date or respective dates of withdrawal from the Grant Account) of the value of the currency or currencies so withdrawn.”

(d) Section 4.06(b) is modified to read as follows:

“(b) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without restrictions of any kind imposed by, or in the territory of, the Recipient.”

7. Section 5.08 of the General Conditions is amended to read as follows:

“Section 5.08. *Treatment of Taxes*

Except as otherwise provided in the Development Grant Agreement, the proceeds of the Grant may be withdrawn to pay for taxes levied by, or in the territory of, the Recipient on the goods or services to be financed under the Grant, or on their importation, manufacture, procurement or supply. Financing of such taxes is subject to the Association’s policy of requiring economy and efficiency in the use of the proceeds of its credits and grants. To that end, if the Association shall at any time determine that the amount of any taxes levied on or in respect of any item to be financed out of the proceeds of the Grant is excessive or otherwise unreasonable, the Association may, by notice to the Recipient, adjust the percentage for withdrawal set forth or referred to in respect of such item

in the Development Grant Agreement as required to be consistent with such policy of the Association.”

8. Article VI is modified as follows:
 - (a) The word “credit” in paragraphs (a)(ii) and (c)(i) of Section 6.02 is replaced with the words “credit, grant or financing”.
 - (b) Section 6.03 (c) is modified by replacing the words “corrupt or fraudulent” with the words “corrupt, fraudulent, collusive or coercive”.
9. Section 8.01(a) is modified to read as follows:

“(a) All amounts which the Recipient shall be required to pay under the Development Grant Agreement shall be paid without deduction for, and free from, any taxes levied by, or in the territory of, the Recipient.”
10. Section 12.05 and its heading are modified to read as follows:

“Section 12.05. *Termination of Development Grant Agreement.*

The obligations of the Recipient under the Development Grant Agreement shall terminate on the date 20 years after the date of the Development Grant Agreement.”