

CONFORMED COPY

CREDIT NUMBER 3136-MAI

Development Credit Agreement

(Second Social Action Fund Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 4, 1998

CREDIT NUMBER 3136-MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 4, 1998, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Borrower, having satisfied itself as to the feasibility and priority of the Project described in Schedule 2 to this Agreement, has requested the Association to assist in the financing of the Project;

(B) the Association has received the Borrower's Policy Framework for Poverty Alleviation Programme, dated October 1995, (hereinafter called the Program) declaring, inter alia, the Borrower's commitment to the execution of the Program; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit

Agreements" of the Association, dated January 1, 1985, (as amended through December 2, 1997) with the modifications set forth below (the General Conditions) constitute an integral part of this Agreement:

(a) A new paragraph (12) is added to Section 2.01 to read as set forth below and the existing paragraphs (12) through (14) of said Section are accordingly renumbered as paragraph (13) through (15): "12. 'Participating Country' means any country that the Association determines meets the requirements set forth in Section 10 of resolution No 183 of the Board of Governors of the Association, adopted on June 26, 1996; and 'Participating Countries' means, collectively, all such countries."

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

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

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

(a) "Beneficiary" means a community, including a village, group of villages, or a group of urban dwellers, duly represented by a Project Management Committee (as hereinafter defined), which is the recipient of a Community Subproject Grant (as hereinafter defined);

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

(c) "Community Subproject Grant" means a grant made or proposed to be made by MASAF to finance a Community Subproject (as hereinafter defined);

(d) "Community Subproject" means a specific development project financed or to be financed through a Community Subproject Grant extended under Part A.1 of Project;

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

(f) "DSS" means a District Executive Committee Sub Set consisting of the District Development Officer, Clerk of Council and Sector Technical Supervisor;

(g) "FY" means the Borrower's fiscal year commencing on July 1 and ending on the following June 30;

(h) "IEC" means Information, Education, and Communication;

(i) "Project Manuals" means the Implementation, Administration, and Accounting Manuals for the implementation of all the components of the Project, dated July 31, 1998 and referred to in paragraph 2 of Schedule 4 of this Agreement;

(j) "MASAF Board" means the Malawi Social Action Fund Board established under OPC (as hereinafter defined) to provide policy oversight over the MASAF MU (as hereinafter defined) and referred to in paragraph 1(b) of Schedule 4 to this Agreement;

(k) "MASAF MU" means the Malawi Social Action Fund Management Unit established as of July 1, 1995, within OPC to carry out the Project;

(l) "MIS" means management information system;

- (m) "MK" means Malawi Kwacha, the Borrower's currency;
- (n) "MOF" means the Borrower's Ministry of Finance;
- (o) "NEC" means the Borrower's National Economic Council;
- (p) "NGO" means a non-governmental organization duly authorized to operate in the Borrower's territory;
- (q) "OPC" means the Borrower's Office of the President and Cabinet;
- (r) "Project Account" means the account referred to in Section 3.04 (a) of this Agreement;
- (s) "Project Management Committee" means a committee established by a community to represent that community's interests, as specified in the Project Manuals during the identification, preparation, appraisal, and implementation of a Community Subproject or a PWP Subproject (as hereinafter defined) and comprising a chairperson, a secretary, a treasurer, a deputy treasurer, and from three to five members, all duly elected by the members of the community;
- (t) "Project Support Committee" means a committee established by a community to represent the community's interests, as specified in the Project Manuals during the identification, preparation, appraisal and implementation of a Sponsored Subproject (as hereinafter defined);
- (u) "PWP Subproject" means specific construction, rehabilitation, or maintenance works identified by the DSS and to be financed under Part B.1 of the Project;
- (v) "PWP Subproject Financing Agreement" means an agreement to be entered into between MASAF MU and a DSS for the purpose of carrying out a PWP Subproject;
- (w) "Special Account" means the account referred to in Section 2.02 (b) of this Agreement;
- (x) "Sponsored Subproject Agreement" means an agreement to be entered into between MASAF MU and a Sponsoring Agency (as hereinafter defined) for the purpose of carrying out a Sponsored Subproject (as hereinafter defined);
- (y) "Sponsored Subproject Grant" means a grant made or proposed to be made by MASAF MU to finance a Sponsored Subproject (as hereinafter defined) under Part C.1 of the Project;
- (z) "Sponsored Subproject" means a specific activity identified by a Sponsoring Agency (as hereinafter defined) to be financed through a Sponsored Subproject Grant extended under Part C.1 of the Project; and
- (aa) "Sponsoring Agency" means any NGO, Project Support Committee, or other institution engaged to implement activities under Part C.1 of the Project.

## 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 forty-nine million six hundred thousand Special Drawing Rights (SDR 49,600,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for (i) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of works, goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit; and (ii) amounts paid (or if the Association shall so agree, amounts to be paid) by the Borrower on account of withdrawals made for the benefit of a Beneficiary, a DSS or a Sponsoring Agency, under a Community Subproject Grant, a PWP Subproject Financing

Agreement or a Sponsored Subproject Grant, to meet the reasonable cost of goods, works, or services required for such Community, PWP or Sponsored Subproject and in respect of which withdrawal from the Credit Account is requested.

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

Section 2.03. The Closing Date shall be May 31, 2003, or such later date as the Association shall establish. The Association shall promptly notify the Borrower of such later date.

Section 2.04. (a) The Borrower shall pay to the Association a commitment charge on the principal amount of the Credit not withdrawn from time to time at a rate to be set by the Association as of June 30 of each year, but not to exceed the rate of one-half of one percent ( $1/2$  of 1%) per annum.

(b) The commitment charge shall accrue: (i) from the date sixty days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or canceled; and (ii) at the rate set as of the June 30 immediately preceding the accrual date 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 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 February 15 and August 15 in each year. Section 2.07. (a) Subject to paragraphs (b), (c) and (d) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each February 15 and August 15 commencing February 15, 2009, and ending August 15, 2038. Each installment, to and including the installment payable on August 15, 2018, 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 per capita gross national product (GNP), as determined by the Association, shall have exceeded for three consecutive years the level established annually by the Association for determining eligibility to access the Association's resources; 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 repayment of installments under paragraph (a) above by: (A) 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; and (B) requiring the Borrower to commence repayment of the principal amount of the Credit as of the first semiannual payment date referred to in paragraph (a) above falling six months or more after the date on which the Association notifies the Borrower that the events set out in this paragraph (b) have occurred, provided, however, that there shall be a grace period of a minimum of five years on such repayment of principal.

(c) If so requested by the Borrower, the Association may revise the modification referred to in paragraph (b) above 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.

(d) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

Section 2.08. The currency of the United States of America is hereby specified for the purposes of Section 4.02 of the General Conditions.

### ARTICLE III

#### Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement, and, to this end, shall carry out the Project through MASAF MU with due diligence and efficiency and in conformity with appropriate financial, administrative, environmental and economic practices, and shall provide, promptly as needed, the funds, facilities, services and other resources required for the Project.

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

Section 3.02. Except as the Association shall otherwise agree, procurement of the goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Credit shall be governed by the provisions of Schedule 3 to this Agreement.

Section 3.03. For the purposes of Section 9.07 of the General Conditions and without limitation thereto, the Borrower shall:

(a) prepare, on the basis of guidelines acceptable to the Association, and furnish to the Association not later than six (6) months after the Closing Date or such later date as may be agreed for this purpose between the Borrower and the Association, a plan designed to ensure the sustainability of the Project; and

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

Section 3.04. Without limitation upon the provisions of Section 3.01 of this Agreement, the Borrower shall:

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

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

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

### 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 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 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 no later than six months after the end of each such year, 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 and 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 was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;

(iii) enable the Association's representatives to examine such records; and

(iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

## ARTICLE V

### Remedies of the Association

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

## ARTICLE VI

### 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 Borrower has opened the Project Account and the initial contribution referred to in Section 3.04 (b) of this Agreement has been deposited therein;

(b) the Borrower has furnished to the Association, the signed Memorandum of Understanding referred in paragraph 3 of Schedule 4 to this Agreement;

(c) the Borrower has furnished to the Association, copies of the ministerial circulars referred to in paragraph 4 of Schedule 4 to this Agreement; and

(d) the Borrower has confirmed that the MIS system referred to in paragraph 14 of Schedule 4 to this Agreement is operational.

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 Borrower; Addresses

Section 7.01. The Minister at the time responsible for 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:

FINANCE  
Lilongwe

Telex:

44407 MI

For the Association:

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

Cable address:

INDEVAS  
Washington, D.C.

Telex:

248423 (MCI) or  
64145 (MCI)

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

REPUBLIC OF MALAWI

By /s/ Willie Chokani

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Barbara Kafka

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<br>Credit Allocated<br>(Expressed in<br>SDR Equivalent) | % of<br>Expenditures<br>to be Financed                              |
|--|---|---|
| (1) Community<br>Subprojects                                       | 30,720,000  | 95% of amounts paid<br>by MASAF MU                                  |
| (2) PWP Subprojects  | 8,650,000   | 95% of amounts paid<br>by MASAF MU                                  |
| (3) Sponsored<br>Subprojects                                       | 380,000   | 95% of amounts paid<br>by MASAF MU                                  |
| (4) Equipment,<br>furniture<br>and supplies                        | 300,000   | 100% of foreign<br>expenditures and<br>90% of local<br>expenditures |
| (5) Consultants'<br>services, training<br>workshops and<br>studies | 2,780,000   | 100%  |
| (6) Operating costs  | 1,810,000   | 90% in<br>FY 1999/2000<br>and 85% thereafter                        |
| (7) Unallocated  | 4,960,000   |   |
|  | <u>49,600,000</u>   |   |
| TOTAL  | =====   |   |

2. For the purposes of this Schedule:

(a) the term "foreign expenditures" means expenditures in the currency of any country other than that of the Borrower for goods or services supplied from the territory of any country other than that of the Borrower;

(b) the term "local expenditures" means expenditures in the currency of the Borrower or for goods or services supplied from the territory of the Borrower; and

(c) The term "operating costs" means incremental recurrent expenditures incurred on account of the Project for MASAF MU contract staff remuneration, per diem, benefits, 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.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for:

(a) expenditures prior to the date of this Agreement; and

(b) expenditures under Categories (1), (2) and (3) unless the Community Subproject Grants, the financing for PWP Subproject and Sponsored Subproject Grants have been made in accordance with the criteria, procedures and terms and conditions



set forth or referred to in paragraphs 6 and 7, and 9 through 12, of Schedule 4 to this Agreement, respectively.

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

(a) for expenditures under contracts for works not exceeding \$100,000 equivalent each;

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

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

(d) for expenditures for training, workshops, and incremental operating costs, all under such terms and conditions as the Association shall specify by notice to the Borrower.

## SCHEDULE 2

### Description of the Project

The objectives of the Project are to enhance and sustain the provision and use of resource endowments by Beneficiaries, which will contribute to poverty reduction through: (i) addressing the need for socio-economic infrastructure development in rural and urban areas; (ii) supporting safety-net programs; and (iii) enhancing the Borrower's capacity to identify, prioritize and implement projects by training stakeholders at national, regional, district and community levels.

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

#### Part A: Community Subprojects

1. Promotion, identification, design, appraisal, implementation, supervision and evaluation of community based socio-economic infrastructure Community Subprojects and provision of Community Subproject Grants for the financing thereof, for the rehabilitation, extension, construction and equipment for sustainable basic and post basic education, health facilities, construction and rehabilitation of economic infrastructure, including markets, small scale water supply, storm drainage and sanitation, access roads, bridges and natural resource management.

2. Dissemination of the objectives and working principles of MASAF through the carrying out of sensitization, and IEC activities.

#### Part B: Public Works Program

1. Carrying out PWP Subprojects consisting of labor-intensive works as a safety-net scheme in targeted poor rural and urban areas, including road rehabilitation and maintenance, land husbandry and afforestation, water supply and sanitation and drainage schemes and rainwater collection and provision of financing therefor.

2. Carrying out IEC activities about the program including the production of flyers, posters, radio programs, videos and the use of drama groups.

#### Part C: Sponsored Sub-Projects

1. Provision of Sponsored Subprojects Grants for Sponsored Subprojects identified by Sponsoring Agencies for street children, orphans, persons with disabilities, the aged and HIV/AIDS affected persons, for the construction and physical rehabilitation of facilities to be used by such persons and for the provision of services.

2. Carrying out IEC activities to sensitize and disseminate information about these sub-projects through the production of flyers, posters, and videos.

Part D: Capacity Enhancement and Studies

1. Strengthening the capacity of the MASAF MU and national, regional and district agencies to implement the Community, PWP and Sponsored Subprojects, through the provision of training in the use of procedures, systems and criteria developed under MASAF.

2. Carrying out studies relevant to the objectives of the Project, including annual beneficiary assessments, impact assessments, and strategic and technical studies to determine the future role of MASAF.

\* \* \*

The Project is expected to be completed by November 30, 2002.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Good and Works

Part A: General

Goods and works shall be procured in accordance with (a) the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996 and September 1997, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Guidelines) and (b) the following provisions of this Section I. In paragraphs 1.6 and 1.8 of the Guidelines, the references to "Bank Member Countries" and "Member Country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country"

Part B: International Competitive Bidding

Except as otherwise provided in Part C of this Section, works shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.

Part C: Other Procurement Procedures

1. National Competitive Bidding

Goods estimated to cost less than \$100,000 equivalent per contract, up to an aggregate amount not to exceed \$430,000 equivalent, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

2. National Shopping and IAPSO

Goods estimated to cost less than \$30,000 equivalent per contract, up to an aggregate amount not to exceed \$600,000 equivalent, may be procured under contracts awarded on the basis of national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines, or through the United Nations Inter-Agency Procurement Office.

3. Community Participation

Goods and works required for Parts A, B and C of the Project may be procured in accordance with procedures acceptable to the Association, and documented in the Project Manuals.

4. Procurement of Small Works

Works for Parts A and B of the Project, estimated to cost less than \$50,000 equivalent per contract, up to an aggregate amount not to exceed \$44,600,000 equivalent with respect to Part A of the Project and \$12,800,000 equivalent with respect to Part B of the Project, may be procured under lump-sum, fixed-price

contracts awarded on the basis of quotations obtained from three (3) qualified domestic contractors in response to a written invitation. The invitation shall include a detailed description of the works, including basic specifications, the required completion date, a basic form of agreement acceptable to the Association, and relevant drawings, where applicable. The award shall be made to the contractor who offers the lowest price quotation for the required work, and who has the experience and resources to complete the contract successfully.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

Prior to the issuance of any invitations to prequalify for bidding or to bid for contracts, the proposed procurement plan for the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Guidelines. Procurement of all goods and works shall be undertaken in accordance with such procurement plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

With respect to each contract for goods and works estimated to cost the equivalent of \$100,000 or more and the first contract for goods and works respectively, procured in accordance with National Competitive Bidding, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Guidelines shall apply.

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with (a) the provisions of the Introduction and Section IV of the "Guidelines: Selection and Employment of Consultants by World Bank Borrowers" published by the Bank in January 1997 and revised in September 1997, subject to the modifications thereto set forth in paragraph 2 of this Part A (the Consultant Guidelines) and (b) the following provisions of Section II of this Schedule. In paragraphs 1.10 of the Consultant Guidelines, the references to "Bank Member Countries" and "Member Country" shall be deemed to be references, respectively, to "Participating Countries" and "Participating Country".

Part B: Quality- and Cost-based Selection

1. Except as otherwise provided in Part C of this Section, consultants' services shall be procured under contracts awarded in accordance with the provisions of Section II of the Consultant Guidelines, paragraph 3 of Appendix 1 thereto, Appendix 2 thereto, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

2. The following provisions shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph. The short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services for consultants under Part D of the Project 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 and 3.7 of the Consultant Guidelines.

2. Single Source Selection

Services for consultants which are estimated to cost less than \$100,000 equivalent per contract, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraphs 3.8 through 3.11 of the Consultant Guidelines.

3. Individual Consultants

Services for consultants, tasks that meet the requirements set forth in paragraph 5.01 of the Consultant Guidelines, may be procured under contracts awarded to individual consultants in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

4. Community Participation

Services required to assist Beneficiaries or a DSS in carrying out Community, PWP and Sponsored Subprojects, may be procured in accordance with procedures acceptable to the Borrower and the Association, and specified in the Project Manuals.

Part D: Review by the Association of the Selection of Consultants

1. Selection Planning

Prior to the issuance to consultants of any requests for proposals, the proposed plan for the selection of consultants under the Project shall be furnished to the Association for its review and approval, in accordance with the provisions of paragraph 1 of Appendix 1 to the Consultant Guidelines. Selection of all consultants' services shall be undertaken in accordance with such selection plan as shall have been approved by the Association, and with the provisions of said paragraph 1.

2. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$200,000 or more, the procedures set forth in paragraphs 1, 2 and (other than the third subparagraph of paragraph 2(a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, but less than the equivalent of \$200,000, the procedures set forth in paragraphs 1, 2 (other than the second subparagraph of paragraph 2 (a)) and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(c) With respect to each contract for the employment of individual consultants estimated to cost the equivalent of \$50,000 or more, the qualifications, experience, terms of reference and terms of employment of the consultants shall be furnished to the Association for its prior review and approval. The contract shall be awarded only after the said approval shall have been given.

3. Post Review

With respect to each contract not governed by paragraph 2 of this Part, the procedures set forth in paragraph 4 of Appendix 1 to the Consultant Guidelines shall apply.

SCHEDULE 4

Implementation Program

General

1. (a) The Borrower shall: (i) maintain the MASAF MU which shall be responsible for the implementation of the Project; and (ii) at all times maintain within MASAF MU staff, with qualifications and terms of reference acceptable to the Association, including an Executive Director, Directors of Field Operations for Community Subprojects and the Public Works Program, Directors for the Finance and Administration divisions, as well as, heads of Sponsored Subprojects, the Communication, Internal

Audit, Information Technology and Technical Services Units.

(b) The Borrower shall maintain the MASAF Board established on September 11, 1998, to oversee the work of MU. Unless the Association shall otherwise agree, the MASAF Board shall, (i) be chaired by the Principal Secretary (Finance), OPC, and (ii) comprise the following members: Principal Secretaries of MOF, Ministry of Justice, National Economic Commission, Secretary for the Poverty Alleviation Program, and the Executive Secretary of the Council for Non Governmental Organizations in Malawi, representatives of the traditional authorities, the Director for the Center for Social Research, and Secretary for District and Local Government Administration and two members with expertise in urban planning and management and the private sector, respectively.

(c) The MASAF Board shall, on behalf of the Borrower: (i) provide overall policy guidance on the management of the Project, (ii) give the MASAF MU directives and guidance on the interpretation of the Borrower's policies pertaining to those sectors affected by the Project, (iii) approve MASAF MU's annual work plans, (iv) review quarterly and annual reports and semi-annual and annual audits; and (v) review as part of the impact and sustainability assessments of the Project, whether adequate budgetary allocations have been made to the various ministries of the Borrower involved in the implementation of the various components of the Project to cover the anticipated recurrent expenditures required for the carrying out of Project activities.

2. MASAF MU shall: (a) (i) maintain the Project Manuals for the implementation of all components of the Project, (ii) take all measures necessary to ensure that the Project is carried out in conformity with the Project Manuals, and (iii) not amend or waive any provision thereof which, in the opinion of the Association, will materially or adversely affect the implementation of the Project; (b) prepare the annual workplans for approval by the MASAF Board.

3. MASAF MU shall enter into a memorandum of understanding acceptable to the Association, with the Ministry Works and Supplies, Department of District and Local Government Administration and National Roads Authority to formalize their respective roles in the implementation of PWP Subprojects relating to roads.

4. The Borrower shall designate Desk Officers in its Ministries and Departments, who shall be assigned to work with MASAF MU and to carry out the following activities: (a) provide information to MASAF MU on sectoral gaps, policies and norms; (b) provide feedback on issues arising from the implementation of the subprojects; (c) obtain approval of subprojects inclusion under the project; and (d) monitor whether sectoral recurrent budgets cover assets created under the Project. Such designation shall be formalized by the issuance of ministerial circulars by the relevant Principal Secretary.

5. The Borrower 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 6 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 September of each year for the annual reviews, September 30, 2000 with respect to the mid-term review, an annual progress 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 various components of the Project during the period preceding the date of said report based on the work plan for the period under review 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; and

(c) review with the Association, by November of each year for the annual reviews and November 30, 2000 with respect to the mid-term review, 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.

Part A of the Project

6. Eligibility Criteria for Community Subprojects

Without limitation on the provisions of paragraph 2 above, no Community Subproject shall be eligible for financing out of the proceeds of the Credit unless the Executive Director of the MASAF MU shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Project Manuals, that the Community Subproject satisfies the eligibility criteria specified in more detail in the Project Manuals, which shall include the following:

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

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

(c) the Community Subproject shall be economically, financially and technically viable in accordance with the standards specified in the Project Manuals;

(d) except as the Association shall otherwise agree, the Beneficiary shall provide not less than 20% of the estimated costs of the Community Subprojects in the form of cash, materials, labor or other services and not less than 5% of the estimated costs of Community Subprojects for boreholes; and

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

7. Terms and Conditions of Community Subprojects Grants

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

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

(b) the obligation to carry out the Community Subproject in accordance with the Project Manuals, 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 Community Subproject;

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

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

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

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

8. In order to assist communities to expeditiously implement Community Subprojects, the MASAF MU shall maintain a unit cost data bank for monitoring the cost of

materials, goods, works and services, and update such data on a quarterly or semiannual basis.

#### Part B of the Project

##### 9. Eligibility Criteria for PWP Subprojects

Without limitation on the provisions of paragraph 2 above, no PWP Subproject shall be eligible for financing out of the proceeds of the Credit unless the Executive Director of the MASAF MU shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Project Manuals, that the PWP Subproject satisfies the eligibility criteria specified in more detail in the Project Manuals, which shall include the following: (a) the nature and size of the PWP Subproject is such that it cannot be carried out by the relevant community on a self-help basis; (b) the unskilled labor content of the PWP Subproject is not less than 40% of the total cost thereof; and (c) implementation of the PWP Subproject will not require highly specialized technical inputs and procedures and can be started expeditiously.

##### 10. Terms and conditions of financing for PWP Subprojects

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

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

(b) the obligation to carry out the PWP Subproject in accordance with the Project Manuals, 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 PWP Subproject;

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

(d) the right of MASAF MU to inspect by itself, or jointly with the Association, if the Association shall so request, the goods, works, sites and construction included in PWP Subproject, the operations thereof and any relevant records and documents; (e) the right of MASAF MU to obtain all information as MASAF MU or the Association shall reasonably request regarding the administration, operation and financial conditions of the PWP Subproject; and (f) the right of MASAF MU to suspend or terminate the right of a DSS to use the proceeds of the Credit for the PWP Subproject upon the failure by the DSS to perform any of its obligations under the PWP Subproject Financing Agreement.

#### Part C of the Project

##### 11. Eligibility Criteria for Sponsored Subprojects

Without limitation on the provisions of paragraph 2 above, no Sponsored Subproject shall be eligible for financing out of the proceeds of the Credit unless the Executive Director of MASAF MU shall have determined, on the basis of an appraisal conducted in accordance with the guidelines set forth in the Project Manuals, that the Sponsored Subproject satisfies the eligibility criteria specified in more detail in the Project Manuals, which shall include the following:

(a) the Sponsored Subproject shall be for activities to improve the quality of life of street children, orphans, persons with disabilities, the aged and HIV/AIDS affected persons;

(b) the Sponsored Subproject shall be initiated by a Sponsoring Agency;

(c) the Sponsored Subproject shall be economically, financially and

technically viable in accordance with the standards specified in the Project Manuals;

(d) the Sponsoring Agency shall provide no less than 20% of the estimated costs of the Sponsored Subproject in the form of cash, materials, labor or other services in the case of infrastructure activities; and

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

## 12. Terms and Conditions of Sponsored Subprojects Grants

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

(a) financing to be on a grant basis and, unless otherwise agreed with the Association, not to exceed the equivalent of \$10,000 per Sponsored Subproject Grant;

(b) the obligation to carry out the Sponsored Subproject in accordance with the Project Manuals, 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 Sponsored Subproject;

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

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

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

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

## Part D of the Project

13. The Borrower shall establish an MIS system, satisfactory to the Association, to monitor and report on a monthly basis both the physical progress and financial status of Community, PWP and Sponsored Subprojects and other activities under the Project.

## SCHEDULE 5

### Special Account

#### 1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (6) 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 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 \$3,000,000 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 deposit into the Special Account of an amount or amounts which do not exceed the aggregate amount of the Authorized Allocation. On the basis of such request or requests, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount or amounts as the Borrower shall have requested.

(b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.

(ii) Prior to or at the time of each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the Special Account for eligible expenditures. All such deposits shall be withdrawn by the Association from the Credit Account under the respective eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and other evidence showing that such payment was made exclusively for eligible expenditures.

5. Notwithstanding the provisions of paragraph 3 of this Schedule, the Association shall not be required to make further deposits into the Special Account:

(a) if, at any time, the Association shall have determined that all further withdrawals should be made by the Borrower directly from the Credit Account in accordance with the provisions of Article V of the General Conditions and paragraph (a) of Section 2.02 of this Agreement;

(b) if the Borrower shall have failed to furnish to the Association, within the period of time specified in Section 4.01 (b)(ii) of this Agreement, any of the audit reports required to be furnished to the Association pursuant to said Section in respect of the audit of the records and accounts for the Special Account;

(c) if, at any time, the Association shall have notified the Borrower of its intention to suspend in whole or in part the right of the Borrower to make withdrawals from the Credit Account pursuant to the provisions of Section 6.02 of the General Conditions; or

(d) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, minus the total amount of all outstanding special commitments 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 6

##### Performance Indicators

###### Part A: Community Subprojects

Number of Community Subprojects requests received, approved, funded and completed by sector and geographic distribution

Number of women in Project Management Committees

Number of women trained in the Operations and Maintenance of water facilities

Completion time of Community Subprojects

Number of proposals received from the urban areas, approved, funded and completed

Access to safe water sources - distance to the water point and time savings

###### Part B: Public Works Program

Number of persons /months of employment created by gender under the urban and rural subprojects

Labor intensity: percentage of unskilled labor cost to total project cost

Number of projects approved, funded and completed by sector and geographic distribution

Number of households benefiting from employment

Total wage income transferred in US dollar equivalent

Number of IEC messages by types, medium and coverage

###### Part C: Sponsored Subprojects

Number of Sponsored Subproject requests received, approved, funded, and completed by sector and geographic distribution

Number of Sponsoring Agencies applying for support

Number of IEC messages by type, medium, and coverage

Category and number of beneficiaries covered

Part D: Capacity Enhancement

Workshops/meeting/ studies/field visits by type of training provided and number and type of participants

Number of people trained in project cycle management and basic bookkeeping

Number of strategic and technical studies, beneficiary and impact assessments carried out and disseminated

