

CONFORMED COPY

CREDIT NUMBER 2069 MAI

Development Credit Agreement

(Infrastructure Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated December 14, 1989

CREDIT NUMBER 2069 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated December 14, 1989, between REPUBLIC OF MALAWI (the Borrower) and the INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

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

(B) the Borrower intends to contract from the African Development Fund (AfDF) a loan (the AfDF Loan) in an amount approximately equivalent to thirty-eight million eight hundred thousand dollars (\$38,800,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the AfDF Loan Agreement) to be entered into between the Borrower and AfDF;

(C) the Borrower intends to contract from the Danish International Development Agency (DANIDA) a grant (the DANIDA Grant) in an amount approximately equivalent to one million five hundred thousand dollars (\$1,500,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the DANIDA Grant Agreement) to be entered into between the Borrower and DANIDA;

(D) the Borrower intends to contract from the European Development Fund (EDF) a grant (the EDF Grant) in an amount approximately equivalent to

twenty-one million nine hundred thousand dollars (\$21,900,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the EDF Grant Agreement) to be entered into between the Borrower and EDF;

(E) the Borrower intends to contract from Kreditanstalt fur Wiederaufbau of the Federal Republic of Germany (KfW) a grant (the KfW Grant) in an amount approximately equivalent to fifteen million nine hundred thousand dollars (\$15,900,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the KfW Grant Agreement) to be entered into between the Borrower and KfW;

(F) the Borrower intends to contract from the Overseas Development Administration of the United Kingdom (ODA) a grant (the ODA Grant) in an amount approximately equivalent to fifteen million four hundred thousand dollars (\$15,400,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the ODA Grant Agreement) to be entered into between the Borrower and ODA;

(G) the Borrower intends to contract from the United States Agency for International Development (USAID) a grant (the USAID Grant) in an amount of three million three hundred thousand dollars (\$3,300,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the USAID Grant Agreement) to be entered into between the Borrower and USAID;

(H) the Borrower intends to contract from the Japan International Cooperation Agency (JICA) a grant (the JICA Grant) in an amount approximately equivalent to eight million one hundred thousand dollars (\$8,100,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the JICA Grant Agreement) to be entered into between the Borrower and JICA;

(I) the Borrower intends to contract from Gesellschaft fur Technische Zusammenarbeit of the Federal Republic of Germany (GTZ) a grant (the GTZ Grant) in an amount approximately equivalent to two million nine hundred thousand dollars (\$2,900,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the GTZ Grant Agreement) to be entered into between the Borrower and GTZ;

(J) the Borrower intends to contract from the United Nations Capital Development Fund (UNCDF) a grant (the UNCDF Grant) in an amount approximately equivalent to five million dollars (\$5,000,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the UNCDF Grant Agreement) to be entered into between the Borrower and UNCDF;

(K) the Borrower intends to contract from the United Nations Development Programme (UNDP) a grant (the UNDP Grant) in an amount approximately equivalent to three million four hundred thousand dollars (\$3,400,000) to assist in financing part of the Project on the terms and conditions set forth in an agreement (the UNDP Grant Agreement) to be entered into between the Borrower and UNDP; and

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

NOW THEREFORE the parties hereto hereby agree as follows:

ARTICLE I

General Conditions; Definitions

Section 1.01. The "General Conditions Applicable to Development Credit Agreements" of the Association, dated January 1, 1985, with the last sentence of Section 3.02 deleted (the General Conditions), constitute an integral part of this Agreement.

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

(b) "MOW" means the Borrower's Ministry of Works;

(c) "MTC" means the Borrower's Ministry of Transport and Communications;

(d) "DWSF" means the District Water Supply Fund established as a Treasury Fund by the District Water Supply Fund Order (Government Notice Number 35 of 1977) made under Section 17 (1) of the Finance and Audit Act, Chapter 37:01 of the Laws of Malawi;

(e) "DRIMP" means the Borrower's District Roads Improvement and Maintenance Program, a program started pursuant to the Development Credit Agreement (Second Highway Project), dated December 19, 1974, between the Borrower and the Association, as last amended by an exchange of letters, dated June 9, 1978 and July 11, 1978, between the Borrower and the Association, and continued pursuant to the Development Credit Agreement (Fourth Highway Project Agreement), dated February 20, 1981, between the Borrower and the Association;

(f) "MK" and "kwacha" mean the currency of the Borrower; and

(g) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters, dated June 6, 1988, July 11, 1988, April 20, 1989 and April 27, 1989, between the Borrower and the Association.

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 this Agreement, an amount in various currencies equivalent to twenty-two million three hundred thousand Special Drawing Rights (SDR 22,300,000).

Section 2.02. (a) The amount of the Credit may be withdrawn from the Credit Account in accordance with the provisions of Schedule 1 to this Agreement for expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services required for the Project described in Schedule 2 to this Agreement and to be financed out of the proceeds of the Credit.

(b) The Borrower shall, for the purposes of the Project, open and maintain in dollars a special account in a commercial bank on terms and conditions satisfactory to the Association. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

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

Section 2.03. The Closing Date shall be December 31, 1995, 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 a date sixty (60) days after the date of this Agreement (the accrual date) to the respective dates on which amounts shall be withdrawn by the Borrower from the Credit Account or cancelled; or
 - (ii) at the rate set as of the June 30 immediately preceding the accrual date or at such other rates as may be set from time to time thereafter pursuant to paragraph (a) above; the rate set as of June 30 in each year shall be applied as of the next payment date in that year specified in Section 2.06 of this Agreement, except that the rate set as of June 30, 1988, shall be applied as of July 1, 1988.
- (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 March 15 and September 15 in each year.

Section 2.07. (a) Subject to paragraphs (b) and (c) below, the Borrower shall repay the principal amount of the Credit in semiannual installments payable on each March 15 and September 15 commencing March 15, 2000, and ending September 15, 2029. Each installment to and including the installment payable on September 15, 2009 shall be one percent (1%) of such principal amount, and each installment thereafter shall be two percent (2%) of such principal amount.

(b) Whenever:

- (i) the Borrower's gross national product per capita, as determined by the Association, shall have exceeded \$790 in constant 1985-dollars for five consecutive years; and
- (ii) the Bank shall consider the Borrower creditworthy for Bank lending, the Association may, subsequent to the review and approval thereof by the Executive Directors of the Association and, after their due consideration of the development of the Borrower's economy, modify the terms of repayment of installments under paragraph (a) above, by requiring the Borrower to repay twice the amount of each such installment not yet due until the principal amount of the Credit shall have been repaid. If so requested by the Borrower, the Association may revise such modification to include, in lieu of some or all of the increase in the amounts of such installments, the payment of interest at an annual rate agreed with the Association on the principal amount of the Credit withdrawn and outstanding from time to time, provided that, in the judgment of the Association, such revision shall not change the grant element obtained under the above-mentioned repayment modification.

(c) If, at any time after a modification of terms pursuant to paragraph (b) above, the Association determines that the Borrower's economic condition has deteriorated significantly, the Association may, if so

requested by the Borrower, further modify the terms of repayment to conform to the schedule of installments as provided in paragraph (a) above.

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

ARTICLE III

Execution of the Project

Section 3.01. (a) The Borrower declares its commitment to the objectives of the Project as set forth in Schedule 2 to this Agreement and, to this end, shall carry out the Project, through MOW, MTC and DWSF, with due diligence and efficiency and in conformity with appropriate administrative, financial, engineering and water supply 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.

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 DWSF and 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 not later than six months after the end of each such year, a certified copy of the report of such audit by said auditors, of such scope 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 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) as evidence of 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.

Section 4.02. The Borrower shall consult with the Association on any new investment proposed to be made in the infrastructure sector in each year of Project implementation.

Section 4.03. The Borrower shall take such measures as shall be necessary to ensure that adequate budgetary allocations are made for the maintenance of the road network administered by MOW. To this end, the Borrower and the Association shall, not later than three months prior to the beginning of the fiscal year in each year of Project implementation, review the adequacy of the budgetary allocation proposed to be made by the Borrower for such fiscal year.

Section 4.04. The Borrower shall, by June 30, 1990, furnish to the Association, for its review and comments, an action plan for the development of the construction industry in Malawi.

Section 4.05. (a) Except as the Association shall otherwise agree, the Borrower shall ensure that, in each year of Project implementation, DWSF generates total revenues at a level sufficient to:

- (i) not later than the end of fiscal year 1991-1992, cover DWSF's expenses for operation and maintenance, and depreciation or debt service requirements, whichever is higher;
- (ii) not later than the end of fiscal year 1993-1994, generate positive net income after allowing for DWSF's expenses for operation and maintenance, depreciation, interest and other charges on debt; and
- (iii) maintain a ratio of current assets to current liabilities of not less than 1.4.

(b) Before December 1 in each of its fiscal years, DWSF shall, on the basis of forecasts prepared by DWSF and satisfactory to the Association, review whether it would meet the requirements set forth in paragraph (a) (iii) above in respect of such year and the next following fiscal year, and shall furnish to the Association the results of such review upon its completion.

(c) If any such review shows that DWSF would not meet the requirements set forth in paragraph (a) above for DWSF's fiscal years covered by such review, DWSF shall promptly take all necessary measures (including, without limitation, adjustments of the structure or levels of its tariffs) in order to meet such requirements.

(d) For the purposes of this Section:

- (i) The term "current assets" means cash, all assets which could, in the ordinary course of business, be converted into cash within twelve months, including accounts receivable, marketable securities, inventories and pre-paid expenses properly chargeable to operating expenses within the next fiscal year.
- (ii) The term "current liabilities" means all liabilities which will become due and payable or could, under circumstances then existing, be called for payment within twelve months, including accounts payable, customer

advances, debt service requirements, taxes and payments in lieu of taxes, and dividends.

- (iii) The term "debt service requirements" means the aggregate amount of repayments of (including sinking fund payments, if any), and interest and other charges on, debt.
- (iv) The term "total revenues" means the sums of revenues from all services related to operations and net non-operating income.
- (v) Whenever, for the purposes of this Section, it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such other currency is, at time of such valuation, obtainable for the purposes of servicing such debt, or in the absence of such rate, on the basis of a rate exchange acceptable to the Association.

Section 4.06 (a) Except as the Association shall otherwise agree, the Borrower shall ensure that DWSF does not incur any debt unless a reasonable forecast of the revenues and expenditures of DWSF shows that the estimated net revenues of DWSF, for each fiscal year during the term of the debt to be incurred, shall be at least 1.5 times the estimated debt service requirements of DWSF in such year on all debt of DWSF, including the debt to be incurred.

(b) For the purposes of this Section:

- (i) The term "debt" means any indebtedness of DWSF maturing by its terms more than one year after the date on which it is originally incurred.
- (ii) Debt shall be deemed to be incurred:
 - (A) under a loan contract or agreement or other instrument providing for such debt or for the modification of its terms of payment on the date of such contract, agreement or instrument; and
 - (B) under a guarantee agreement, on the date the agreement providing for such guarantee has been entered into.
- (iii) The term "net revenues" means the difference between:
 - (A) the sum of revenues from all sources related to operations and net non-operating income; and
 - (B) the sum of all expenses related to operations, including administration, adequate maintenance, taxes and payments in lieu of taxes, but excluding provision for depreciation, other non-cash operating charges and interest and other charges on debt.
- (iv) The term "net non-operating income" means the difference between:
 - (A) revenues from all sources other than those related to operations; and
 - (B) expenses, including taxes and payments in lieu of taxes, incurred in the generation of revenues referred to in subparagraph (iii) (A) above.
- (v) The term "debt service requirements" means the aggregate amount of repayments of (including sinking fund payments, if any), and interest and other charges on, debt.

- (vi) The term "reasonable forecast" means a forecast prepared by DWSF not earlier than twelve months prior to the incurrence of the debt in question, which both the Association and DWSF accept as reasonable and as to which the Association has notified DWSF of its acceptability, provided that no event has occurred since such notification which has, or may reasonably be expected in the future to have, a material adverse effect on the financial condition or future operating results of DWSF.
- (vii) Whenever, for the purposes of this Section, it shall be necessary to value, in terms of the currency of the Borrower, debt payable in another currency, such valuation shall be made on the basis of the prevailing lawful rate of exchange at which such currency is, at the time of such valuation, obtainable for the purposes of servicing such debt, or, in the absence of such rate, on the basis of a rate of exchange acceptable to the Association.

Section 4.07. Except as the Association shall otherwise agree, the Borrower shall cause DWSF to undertake a revaluation of its fixed assets in operation as of October 1, 1990, and thereafter as of October 1 each year, in accordance with sound and consistently maintained methods of valuation and revaluation acceptable to the Association.

Section 4.08. The Borrower shall take such measures as shall be necessary to:

- (a) ensure that the Borrower's ministries and parastatal bodies shall, by not later than March 31, 1990, pay, in full, all arrears in excess of ninety days for water bills issued by DWSF; and
- (b) convert its loan of MK 3,688,000 to DWSF as a government contribution to the capital of DWSF.

ARTICLE V

Other Covenants

Section 5.01. The Borrower shall cause DWSF to:

- (a) take out and maintain with responsible insurers, or to make other provision satisfactory to the Association, for insurance against such risks and in such amounts as shall be consistent with appropriate practice;
- (b) to carry on its operations and conduct its affairs in accordance with sound administrative, financial, engineering and water supply practices under the supervision of qualified and experienced management assisted by competent staff in adequate numbers; and
- (c) at all times to operate and to maintain its plants, machinery, equipment and other property, and from time to time, promptly as needed, to make all necessary repairs and renewals thereof, all in accordance with sound administrative, financial, engineering, and water supply practices.

ARTICLE VI

Remedies of the Association

Section 6.01. (a) Pursuant to Section 6.02 (h) of the General Conditions, the following additional events are specified, namely, that the UNCDF Grant Agreement, the DANIDA Grant Agreement, the KfW Grant Agreement and the JICA Grant Agreement shall have failed to become effective by October 15, 1990, or such later date as the Association may agree; provided, however, that the provisions of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

- (b) (i) Subject to subparagraph (ii) of this paragraph:

- (A) the right of the Borrower to withdraw the proceeds of any grant or loan made to the Borrower for the financing of the Project shall have been suspended, cancelled or terminated in whole or in part, pursuant to the terms of the agreement providing herefor; or
 - (B) any such loan shall have become due and payable prior to the agreed maturity thereof.
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that:
- (A) suspension, cancellation, termination or prematuring is not caused by the failure of the Borrower to perform any of its obligations under such agreement; and
 - (B) adequate funds for the Project are available to the Borrower from other sources on terms and conditions consistent with the obligations of the Borrower under this Agreement.

Section 6.02. Pursuant to Section 7.01 (d) of the General Conditions, the following additional event is specified, namely, that the event specified in paragraph (a) of Section 6.01 of this Agreement shall occur and shall continue for a period of 60 days after notice thereof shall have been given by the Association to the Borrower.

ARTICLE VII

Effective Date; Termination

Section 7.01. The following events are specified as additional conditions to the effectiveness of this Agreement within the meaning of Section 12.01 (b) of the General Conditions:

(a) the AfDF Loan Agreement, the EDF Grant Agreement, the UNDP Grant Agreement, the GTZ Grant Agreement, the ODA Grant Agreement and the USAID Grant Agreement have been duly executed on behalf of the Borrower and the respective financing agency; and

(b) the Borrower has obtained assurances, satisfactory to the Association, on the availability of adequate financing for the carrying out of Parts B.3, B.7, B.8, B.9, C.1 (b) and the completion of Part C.2 of the Project, from UNCDF, DANIDA, KfW, and JICA.

Section 7.02. 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.

Section 7.03. The obligations of the Borrower under Sections 4.05, 4.06 and 4.07 of this Agreement shall cease and determine on the date on which this Agreement shall terminate or on the date twenty-five years after the date of this Agreement, whichever shall be the earlier.

ARTICLE VIII

Representative of the Borrower; Addresses

Section 8.01. The Minister of Finance of the Borrower is designated as representative of the Borrower for the purposes of Section 11.03 of the General Conditions.

Section 8.02. 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:

440098 (ITT)
248423 (RCA) or
64145 (WUI)

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/ L. J. Chimango

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Edward V.K. Jaycox

Regional Vice President
Africa

SCHEDULE 1

Withdrawal of the Proceeds of the Credit

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

Amount of the Credit Allocated (Expressed in CategorySDR Equivalent)	% of Expenditures to be Financed	
(1) Civil works:		
(a) under Parts B.5, B.10, C.1 (c), C.2, and D of the Project	10,745,000	90%
(b) for incre- mental main-	155,000	75% of incre- mental costs

	tenance support on district roads for each district brought into the maintenance program subsequent to completion of road improvements under Part B.5 of the Project		during the first year of maintenance; 50% during the second year of maintenance; and 25% during the third year of maintenance
(2)	Equipment, vehicles, spare parts and training equipment under Parts B.5, B.10, C.1 (c) C.2 and D.2 of the Project	1,300,000	100% of foreign expenditures and 90% of local expenditures
(3)	Consultants' services under Parts A, B.13, and C.4 of the Project	5,600,000	100%
(4)	Refunding of Project Preparation Advance	1,200,000	Amount due pursuant to Section 2.02 (c) of this Agreement
(5)	Unallocated	3,300,000	
	TOTAL	22,300,000	

2. For the purposes of this Schedule:

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

(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.

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.

SCHEDULE 2

Description of the Project

The objectives of the Project are to:

(a) strengthen the capability of MOW to effectively carry out the construction and maintenance of public facilities;

(b) restore and improve the physical condition of selected roads within the national road network system to facilitate the movement of traffic and lower transport costs;

(c) expand the existing system of district roads to provide improved access to the rural population;

(d) expand the potable water supply for selected urban centers and rural areas; and

(e) rehabilitate high-priority hospitals, schools and other important public buildings so that they contribute more efficiently and effectively to the provision of public services and extend their useful lives.

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: Management Improvement - MOW

Implementation of a management improvement program for MOW, including technical assistance and consulting services for studies.

Part B: Roads

1. Rehabilitation and strengthening of about 270 km of paved roads.
2. Rehabilitation of about 300 km of earth and gravel roads.
3. Improvement of about 115 km of earth and gravel roads to bitumen standard.
4. Resealing of about 200 km of paved roads.
5. Extension of DRIMP to the three remaining districts; improvement of about 500 km of extra roads in other districts; execution of spot improvements on previously developed DRIMP roads; and maintenance support.
6. Reconstruction of eight bridges.
7. Preparation and installation of new signs on the road network.
8. Acquisition of plant, vehicles and workshop equipment for PVHO.
9. Acquisition of equipment and vehicles for the Road Planning and Design Departments of MOW.
10. Construction and furnishing of nine road maintenance depots and expansion of existing depots.
11. (a) Implementation of a pilot program for rural passenger and goods transport services; and (b) establishment of a road safety program.
12. Establishment of a pavement overlay unit.
13. Technical assistance, including construction supervision and training for the Roads Department.

Part C: Water Supply:

1. Construction of improved water supply systems for:
 - (a) Kasungu and Mzuzu; (b) Zomba; and (c) Mponela, Ntcheu, Mangochi and Karonga.
2. Rehabilitation of about 2,500 boreholes and development of a maintenance management system for boreholes.
3. Construction of about 13 gravity-fed piped water schemes in rural areas.
4. Training and technical assistance, including construction supervision, for DOW.

Part D: Public Buildings:

1. Rehabilitation of selected schools, hospitals and other public buildings.
2. Expansion and improvement of the Lilongwe and Zomba Training Centers.

3. Training and technical assistance, including construction supervision, for the Buildings Department.

* * *

The Project is expected to be completed by June 30, 1995.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

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

Part B: Preference for Domestic Contractors

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

Part C: Other Procurement Procedures

1. Civil works for:

(a) construction of depots and housing under Part B.5 of the Project, and road maintenance depots under Part B.10 of the Project; and

(b) rehabilitation, expansion and improvement of works not exceeding in the aggregate the equivalent of \$8.0 million under Part D.1 and Part D.2 of the Project may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

2. Vehicles and equipment up to an aggregated amount not to exceed the equivalent of \$1.6 million for the improvement and maintenance units under Part B.5 of the Project may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association.

3. Civil works for:

(a) improvement and maintenance works under Part B.5 of the Project; and

(b) depots and housing not exceeding in the aggregate the equivalent of \$3.5 million under Part B.5 and B.10 of the Project which the Association agrees cannot be procured on the basis of competitive bidding procedures, advertised locally, pursuant to paragraph C.1 above, may be carried out by force account.

Part D: Review by the Association of Procurement Decisions:

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

(a) With respect to each contract estimated to cost the equivalent of \$300,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of each such contract required to be furnished to the Association pursuant to paragraph 2 (d) of Appendix 1 to the Guidelines shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of each such contract.

(b) With respect to each contract not governed by the preceding subparagraph (a), the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contracts are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the each such contract, together with the other information required to be furnished to the Association pursuant to paragraph 3 of Appendix 1 to the Guidelines shall be furnished to the Association as part of the evidence to be furnished pursuant to paragraph 4 of Schedule 5 to this Agreement.

(c) The provisions of the preceding subparagraphs (a) and (b) shall not apply to contracts on account of which the Association has authorized withdrawals from the Credit Account on the basis of statements of expenditure. Such contracts shall be retained in accordance with Section 4.01 (c) (ii) of this Agreement.

2. The figure of 15% is hereby specified for purposes of paragraph 4 of Appendix 1 to the Guidelines.

Section II. Employment of Consultants

In order to assist the Borrower in carrying out Part A, Part B.13, Part C.4 and Part D.3, the Borrower shall employ experts and consultants whose qualifications, experience, and terms and conditions of employment shall be satisfactory to the Association. Such experts and consultants shall be selected in accordance with principles and procedures, satisfactory to the Association, on the basis of the "Guidelines for the Use of Consultants by World Bank Borrowers and by The World Bank as Executing Agency", published by the Bank in August 1981.

SCHEDULE 4

Implementation Program

General

1. With the exception of Part B.11 of the Project, which shall be carried out by MTC, MOW shall be responsible for carrying out Part A, Part B, Part C and Part D of the Project.

2. Parts B through D of the Project shall be carried out on the basis of work programs which shall be satisfactory to the Association. Not later than December 31 of the years 1989, 1990, and 1991, the Borrower shall cause to be prepared and shall furnish to the Association, for its review and agreement its work program for Parts B through D of the Project covering the period of 12 months commencing on the following April 1. Such work program shall contain information satisfactory to the Association, including the calculation of an economic rate of return for Parts B and D of the Project on the basis of guidelines satisfactory to the Association. Except as the Association shall otherwise agree, each component to be included in the program for Parts B and D of the Project shall have an economic rate of return of at least 12%. Following review of each such program by the Association, the Borrower shall implement the work program agreed with the Association for each such year.

Part A of the Project

3. The Borrower shall take appropriate measures to ensure that expatriate professional staff in MOW are gradually replaced by suitably qualified Malawians in accordance with a localization plan satisfactory to the Association.

Part B of the Project

4. DRIMP shall be extended to the three remaining districts of Mwanza, Blantyre and Chiradzulu, and about 350 km of district roads will be built during the Project implementation period.

5. MOW shall provide depots, housing, equipment, tools and other facilities, and carry out improvement of roads selected in accordance with a plan to be discussed and agreed upon with the Association not later than three months prior to the beginning of each fiscal year.

6. MOW shall also carry out improvement works on roads improved in earlier phases of DRIMP. MOW shall periodically update its estimates of funds required by the district councils to adequately maintain district roads improved in the current and earlier phases of DRIMP.

7. The adequacy of MOW's estimates of proposed allocations shall be discussed not later than three months prior to the beginning of the fiscal year in each year of Project implementation.

8. MOW shall furnish the Association with quarterly reports on the progress of Project implementation in accordance with a format satisfactory to the Association.

Part C of the Project

9. DWSF shall, by no later than December 31, 1990, establish separate accounting arrangements for the three urban schemes in Zomba, Mzuzu, and Kasungu.

10. In order to enhance its potential revenue, DWSF shall take the necessary measures to replace its current connection policy which requires non-commercial customers to pay MK 250, plus a 15% overhead charge for all new connections, to a charge of 15-20% as a down payment and the balance payable in monthly installments.

11. The Borrower shall carry out a study on the wetlands ecology of the Zomba dam site by September 30, 1990 and implement the recommendations of the study in agreement with the Association.

12. Unless the Association shall otherwise agree, the Borrower shall make available to DWSF the proceeds of the Credit for Parts C.1, C.3 and C.4 of the Project, and shall cause DWSF to reimburse such funds to the Borrower over a period of twenty-five years, including a five-year grace period, and payments of a service charge equivalent to five percent per annum on amounts made available to DWSF but not reimbursed to the Borrower. The foreign exchange risk shall be borne by the Borrower.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "Eligible Categories" means Categories (1) through (3) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "Eligible Expenditures" means expenditures in respect of the reasonable cost of goods and services required for Parts A, B.5, B.10, B.13, C.1 (c), C.2, C.4, D.1 and D.2 of the Project and to be financed out of the proceeds of the Credit allocated from time to time to the Eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$2,000,000 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 satisfactory evidence that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

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

- (b) (i) For replenishment of the Special Account, the Borrower shall furnish to the Association requests for deposits into the Special Account at such intervals as the Association shall specify.
- (ii) Prior to, or at the time of, each such request, the Borrower shall furnish to the Association the documents and other evidence required pursuant to paragraph 4 of this Schedule for the payment or payments in respect of which replenishment is requested. On the basis of each such request, the Association shall, on behalf of the Borrower, withdraw from the Credit Account and deposit into the Special Account such amount as the Borrower shall have requested and as shall have been shown by said documents and other evidence to have been made out of the Special Account for Eligible Expenditures.

All such deposits shall be withdrawn by the Association from the Credit Account under the respective Eligible Categories, and in the respective equivalent amounts, as shall have been justified by said documents and other evidence.

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

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

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

(b) once the total unwithdrawn amount of the Credit allocated to the Eligible Categories for Parts A, B.5, B.10, B.13, C.1 (c), C.2, C.4, D.1 and D.2 of the Project, less the amount of any outstanding special commitment entered into by the Association pursuant to Section 5.02 of the General Conditions with respect to Parts A, B.5, B.10, B.13, C.1 (c), C.2, C.4, D.1 and D.2 of 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 for Parts A, B.5, B.10, B.13, C.1 (c), C.2, C.4, D.1 and D.2 of the Project 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;
- (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) 6 (b) and 6 (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or cancellation, in accordance with the relevant provisions of this Agreement, including the General Conditions.

