

**CONFOMRED COPY**

**CREDIT NUMBER 3715 MAI**

# **Development Credit Agreement**

**(Emergency Drought Recovery Project)**

**between**

**REPUBLIC OF MALAWI**

**and**

**INTERNATIONAL DEVELOPMENT ASSOCIATION**

**Dated December 19, 2002**

**CREDIT NUMBER 3715 MAI**

**DEVELOPMENT CREDIT AGREEMENT**

AGREEMENT, dated December 19, 2002, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received a letter dated August 26, 2002, from the Borrower describing a program of actions, objectives, and policies designed to redefine and strengthen its emergency response management system;

(B) 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;

(C) the Borrower has also requested the Association to provide non-refundable assistance towards the financing of Part A of the Project, and by an agreement of even date herewith between the Borrower and the Association (the Development Grant Agreement), the Association is making a grant to the Borrower in the amount of fifteen million nine hundred thousand Special Drawing Rights (SDR 15,900,000) (the IDA Grant) in response to said request; 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 October 6, 1999), constitute an integral part of this Agreement:

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

(a) "DEC" means a District Executive Committee consisting of the district development officer, district heads of department, relevant NGOs and heads of Government projects;

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

(c) "the Emergency" means the emergency created by the drought situation which started in the Borrower's territory in February 2002, in accordance with the Borrower's declaration dated February 27, 2002;

(d) "Environmental Impact Assessment and Resettlement Policy Framework" or "EIA/RPF" means the environmental impact assessment framework and resettlement policy framework, acceptable to the Bank, to be prepared and submitted to the Association by the Borrower, for the eligible PWP Subproject (as hereinafter defined) and SSP (as hereinafter defined), pursuant to paragraph 3 of Schedule 1 to this Agreement;

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

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

(g) "MASAF" means Malawi Social Action Fund, an autonomous unit established as of July 1, 1995 within the National Economic Council (as hereinafter defined) and designated to carry out Part B of the Project;

(h) "MASAF Board" means the Malawi Social Action Fund Board established in September 11, 1998 under OPC (as hereinafter defined) to provide policy oversight over the MASAF MU (as hereinafter defined) and referred to in paragraph 2 of Schedule 4 to this Agreement;

(i) "MASAF MU" means the management unit of MASAF referred to in paragraph 2 of Schedule 4 to this Agreement;

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

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

- (l) “OPC” means the Borrower’s Office of the President and Cabinet;
- (m) “PCU” means the Project Coordination Unit, to be established for the purpose of overall implementation and monitoring of the Project;
- (n) “Project Account” means either or both of the accounts referred to in Section 3.04 (a) of this Agreement;
- (o) “Project Implementation Manuals” or “PIMs” means the Implementation, Administration and Accounting Manuals for the implementation of all the components of the Project referred to in paragraph 3 of Schedule 4 of this Agreement;
- (p) “PWP Subproject” means specific construction, rehabilitation, or maintenance works identified by the DEC and to be financed under Part B of the Project;
- (q) “PWP Subproject Financing Agreement” means an agreement to be entered into between MASAF MU and a DEC for the purpose of carrying out a PWP Subproject and referred to in paragraph 6 of Schedule 4 to this Agreement;
- (r) “Special Accounts” means either or both of the accounts referred to in Section 2.02 (b) of this Agreement;
- (s) “Sponsoring Agency” means any NGO, Project Support Committee, or other institution responsible for the identification and implementation of activities under Part B.2 of the Project;
- (t) “Sponsored Subproject” or “SSP” means a specific activity identified by a Sponsoring Agency (as hereinafter defined) to be financed through a Sponsored Subproject Grant extended under Part B.2 of the Project;
- (u) “SSP Grant” means a grant made or proposed to be made by MASAF MU to finance a SSP under Part B.2 of the Project; and
- (v) “SSP Grant Agreement” means an agreement to be entered into between MASAF MU and a Sponsoring Agency for the purposes of carrying out a SSP and referred to in Schedule 4 to this Agreement.

## ARTICLE II

### The Credit

Section 2.01. The Association agrees to lend to the Borrower, on the terms and conditions set forth or referred to in the Development Credit Agreement, an amount in various currencies equivalent to twenty two million Special Drawing Rights (SDR 22,000,000).

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

(b) The Borrower may, for the purposes of Parts A and C of the Project and Part B of the Project, respectively, open and maintain in Dollars one separate special deposit account for Parts A and C of the Project and one separate special deposit account for Part B of the Project (hereinafter referred to as Special Account 1 and 2) , both 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, each respective Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

Section 2.03. The Closing Date shall be November 30, 2004 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 April 1 and October 1 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 April 1 and October 1 commencing April 1, 2013 and ending October 1, 2042. Each installment to and including the installment payable on October 1, 2022 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: (i) shall carry out Parts A and C of the Project with due diligence and efficiency and in conformity with appropriate financial, technical, administrative, engineering and environmental practices, and shall provide promptly as needed the funds, facilities, services and other resources required for the Project; and (ii) without any limitation or restriction upon any of its other obligations under this Agreement, shall cause MASAF MU to carry out Part B of the Project with due diligence and efficiency and in conformity with appropriate financial, technical, administrative, engineering and environmental practices, and shall provide promptly as needed the funds, facilities, services and other resources to enable MASAF MU to perform such obligations, and shall not take or permit to be taken any action which would prevent or interfere with such performance;

(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 Parts A and C of the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement; and

(c) 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 cause MASAF MU to carry out Part B of 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 9.06 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 to its obligations under Section 3.01 of this Agreement, the Borrower shall:

(a) open and thereafter maintain, until the completion of the Project, a project account for Part B of the Project (the Project Account A), and a project account for Part C (the Project Account B), in MK and in a commercial bank acceptable to the Association;

(b) promptly thereafter make an initial deposit in MK of an amount equivalent to \$75,000 into the Project Account A and an amount equivalent to \$50,000 into the Project Account B to finance the Borrower's contribution to the Project;

(c) thereafter deposit into the Project Account A and Project Account B, respectively, by the first day of each quarter each year during Project implementation, such amounts as shall be required and agreed upon with the Association to timely replenish Project Account A and Project Account B, respectively; and

(d) use the funds in the Project Accounts exclusively to finance expenditures under the Project.



## ARTICLE IV

### Financial Covenants

Section 4.01. (a) The Borrower shall establish and maintain for Parts A and C of the Project, and shall cause MASAF MU to establish and maintain for Part B of the Project, a financial management system, including records and accounts, and prepare financial statements in a format acceptable to the Association, adequate to reflect the operations, resources and expenditures related to their respective parts of Project.

(b) The Borrower shall:

- (i) have the records, accounts and financial statements referred to in paragraph (a) of this Section and the records and accounts for their respective Special Accounts for each Fiscal Year semiannually audited, in accordance with auditing standards acceptable to the Association, 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 copies of the financial statements referred to in paragraph (a) of this Section for such year as so audited; and (B) an opinion on such statements, records and accounts and 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 such records and accounts, and the audit thereof, and concerning said auditors, as the Association may from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the 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 separate 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 semiannual 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. (a) Without limitation upon the Borrower's progress reporting obligations, the Borrower shall prepare for Parts A and C of the Project, and cause MASAF MU to prepare for Part B of the Project, and furnish to the Association a financial monitoring report, in form and substance satisfactory to the Association, which:

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

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

## **ARTICLE V**

### **Other Covenants**

Section 5.01. The Borrower shall cause MASAF MU, for the purposes of Part B of the Project:

(a) to 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 financial, technical, administrative, engineering and environmental 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 financial, technical, administrative, engineering and environmental practices.

## **ARTICLE VI**

### **Remedies of the Association**

Section 6.01. Pursuant to Section 6.02 (l) of the General Conditions, the following additional events are specified:

(a) MASAF MU shall have failed to perform any of its obligations under this Agreement;

(b) the IDA Grant Agreement shall have failed to become effective by the date of the effectiveness of this Development Credit Agreement, or such later date as the Association may agree;

(c) that a situation has arisen which shall make it improbable that the Program, or a significant part thereof, will be carried out; and

- (d) (i) Subject to subparagraph (ii) of this paragraph the right of the Borrower to withdraw the proceeds of the IDA Grant, has been suspended, canceled or terminated in whole or in part, pursuant to the terms of the Development Grant Agreement; and
- (ii) Subparagraph (i) of this paragraph shall not apply if the Borrower establishes to the satisfaction of the Association that such suspension, cancellation or termination is not caused by the failure of the Borrower to perform any of its obligations under the Development Grant Agreement.

## **ARTICLE VII**

### **Effective Date; Termination**

Section 7.01. 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 auditors referred to in Section 4.01 (b) (i) of this Agreement have been appointed in accordance with the provisions of Section II of Schedule 3 to this Agreement;

(b) the Borrower has adopted the PIMs, in form and substance satisfactory to the Association;

(c) the Borrower has established a financial management system, in form and substance acceptable to the Association, including the development of a financial procedures manual, the appointment of financial management staff and a procurement specialist for the PCU with experience acceptable to the Association and in accordance with the provisions of Section II of Schedule 3 to this Agreement; and

(d) the Borrower has provided satisfactory evidence to the Association that FMRs can be produced.

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.

## 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:	Telex:	Facsimile:
FINANCE Lilongwe	44407 MI	(265) 1 789173

For the Association:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) or 64145 (MCI)	(202) 477-6391

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

REPUBLIC OF MALAWI

By /s/ Tony Kandiero

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Yaw Ansu

(Acting) Regional Vice President  
Africa

## SCHEDULE 1

### Withdrawal of the Proceeds of the Credit

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

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) Eligible imports required for Part A foreign of the Project as specified in Schedule 6 to this Agreement for agricultural inputs and equipment, construction equipment, spare parts, livestock, animal products and veterinary supplies, school supplies, medical supplies and equipment	14,410,000	100% of  expenditures
(2) Goods		
(a) including vehicles and equipment, for Part C of the Project	150,000	100% of foreign expenditures and 80% of local expenditures
(b) Part B. 3 of the Project	100,000	80%
(3) Consultant's Service including audits for Part C of the Project	990,000	100% of foreign expenditures and 80% of local expenditures
(4) Training for Part B. 3 of the Project	470,000	100%

<u>Category</u>	<u>Amount of the Credit Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(5) Subprojects		
(a) Part B.1 of the Project	4,830,000	95%
(b) Part B.2 of the Project	550,000	95%
(6) Operating Costs		
(a) Part C of the Project	230,000	80%
(b) Part B.3 of the Project	120,000	85%
(7) Unallocated	150,000	
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TOTAL	22,000,000	
	=====	

2. For the purposes of this Schedule:

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

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

(c) the term “Operating Costs” means the incremental expenses incurred by the Borrower on account of the Project implementation for (i) Part C of the Project, the establishment and maintenance of the PCU, including information systems, office supplies and maintenance, and (ii) for Part B of the Project, including incremental recurrent expenditures incurred on account of the Project for MASAF MU contract staff remuneration, per diem, benefits, office supplies, maintenance of equipment, telephone, and other communication charges, office rent, office equipment and furniture, but excluding salaries of officials of the Borrower.



3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of: (a) payments made for expenditures prior to the date of this Agreement, except that withdrawals, in an aggregate amount not exceeding the equivalent of SDR 4,400,000 may be made on account of payments made under Category 1 for expenditures before that date but after May 31, 2002; (b) payments made under Categories (2) (a), (3) and (6) (a) of the table set forth in paragraph 1 above until the PCU is established in accordance with terms and conditions satisfactory to the Association; (c) payments made under Categories (5) (a) and (5) (b) of the table set forth in paragraph 1 above unless the Borrower shall have submitted to the Association an EIA/RPF, in form and substance satisfactory to the Association; (d) payments made under Category (5) (a) of the table set forth in paragraph 1 above for each PWP Subproject unless: (i) it's respective PWP Subproject Financing Agreement, with terms and conditions satisfactory to the Association, has been executed on behalf of the MASAF MU and each DEC, respectively, and (ii) the financing for PWP Subprojects have been made in accordance with the criteria, procedures and terms and conditions set forth or referred to in Schedule 4 to this Agreement; and (e) payments made under Category (5) (b) of the table set forth in paragraph 1 above for each SSP unless (i) it's respective SSP Grant Agreement, with terms and conditions satisfactory to the Association, has been executed on behalf of the MASAF MU and each Sponsoring Agency, respectively, and (ii) the financing for SSPs have been made in accordance with the criteria, procedures and terms and conditions set forth or referred to in Schedule 4 to this Agreement

4. The Association may require withdrawals from the Credit Account to be made on the basis of statements of expenditure for expenditures for: (i) eligible imports of agricultural inputs and equipment, construction equipment, spare parts, livestock, animal products and veterinary supplies, school supplies, medical supplies and equipment under contracts costing less than \$500,000 equivalent; (ii) goods under contracts costing less than \$150,000 equivalent; (iii) services from consultant firms under contracts costing less than \$100,000 equivalent; and (iv) services from individual consultants under contracts costing less than \$50,000 equivalent; Subprojects, all training and operating costs, under such terms and conditions as the Association shall specify by notice to the Borrower.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to improve the Borrower's emergency response management and assist in recovery from drought through: (i) financing of import costs associated with rebuilding physical assets, social and economic infrastructure; (ii) re-establishing agricultural production levels and enhancement of food security in response to the damage caused by the Emergency; (iii) rehabilitation of critical infrastructure; and (iv) strengthening of the Borrower's capacity to formulate, implement, and manage medium and long-term disaster management programs.

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:            Imports

Financing of emergency imports as specified in Schedule 6 to this Agreement, subject to such modifications thereof as the Borrower and the Bank may agree upon from time to time to achieve such objectives.

Part B:            MASAF

1. Public Works Program: 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 forestation, water supply and sanitation, drainage schemes and rainwater collection, compost manure making, removal of hyacinth, catchments conservation and provision of financing for such subprojects.
2. SSPs: provision of SSP Grants for SSPs 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.
3. Strengthening of the delivery mechanisms and the information, education and communication activities of the MASAF MU, including the development and implementation of an information, education and communication emergency program to assist MASAF MU with the management and implementation of the PWP Subprojects and SSPs, through the provision of training, equipment and financing for operating costs.

Part C:            Project Management

1.        Establishment and maintenance of the PCU through the provision of technical advisory services, including audits, goods including vehicles and office equipment, and operating costs.
  
2.        Supporting the management of the Project through the provision of technical advisory services and the establishment of a monitoring system to assess progress in implementation, quality of financial management and impact of activities.
  
3.        Strengthening of agricultural services and the improvement of water and soil management through the provision of technical advisory services.
  
4.        Strengthening of the Borrower's disaster preparedness and management through the provision of technical advisory services.
  
5.        Supporting activities to be carried out under Part A and C of the Project concerning: (a) Project administration, coordination, monitoring, and supervision; (b) evaluation of Project activities; (c) carrying out of audits of: (i) accounts and financial management systems, (ii) procurement activities, and (iii) physical implementation; and (d) the carrying out of environmental and social assessments, including the acquisition of equipment, provision of technical assistance services and training for selected national staff.

\* \* \*

The Project is expected to be completed by May 31, 2004.

## **SCHEDULE 3**

### **Procurement**

#### Section I. Procurement of Good and Works

##### Part A: General

Goods and works shall be procured in accordance with the provisions of Section I of the "Guidelines for Procurement under IBRD Loans and IDA Credits" published by the Bank in January 1995 and revised in January and August 1996, September 1997 and January 1999 (the Guidelines) and the following provisions of Section I of this Schedule.

##### Part B: International Competitive Bidding

1. Except as otherwise provided in Part C of this Schedule, goods shall be procured under contracts awarded in accordance with the provisions of Section II of the Guidelines and paragraph 5 of Appendix 1 thereto.
2. The following provision shall apply to goods to be procured under contracts awarded in accordance with the provisions of paragraph 1 of this Part B.

##### Part C: Other Procurement Procedures

###### 1. Modified ICB for imports by private sector

(a) Eligible imports of petroleum and fuel products estimated to cost the equivalent of \$ 3,000,000 or more per contract may be procured under contracts awarded under paragraphs 2.63 and 2.64 of the Guidelines.

(b) All other eligible imports estimated to cost the equivalent of \$ 500,000 or more per contract may be procured under contracts awarded under paragraphs 2.63 and 2.64 of the Guidelines.

###### 2. Commodities imported by the private sector

Commonly traded commodities selected from Schedule 6 to this Agreement may be procured through organized international commodity markets or other channels of competitive procurement acceptable to the Association, in accordance with the provisions of paragraph 2.65 of the Guidelines.

###### 3. International Shopping

Eligible imports selected from Schedule 6 to this Agreement estimated to cost less than \$150,000 equivalent per contract may be procured under contracts awarded on

the basis of international shopping procedures in accordance with paragraphs 3.5 and 3.6 of the Guidelines.

4. National Shopping

Goods estimated to cost less than \$50,000 equivalent per contract may be procured under contracts awarded on the basis of national shopping procedures in accordance with paragraphs 3.5 and 3.6 of the Guidelines.

5. National Competitive Bidding

Goods estimated to cost less than \$150,000 equivalent per contract, may be procured under contracts awarded in accordance with the provisions of paragraphs 3.3 and 3.4 of the Guidelines.

Part D: Review by the Association of Procurement Decisions

1. Prior Review

(a) With respect to each contract for eligible imports by private sector for petroleum and fuel products estimated to cost the equivalent of \$3,000,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(b) With respect to each contract for all other eligible imports by private sector estimated to cost the equivalent of \$500,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

(c) With respect to each contract for Goods estimated to cost the equivalent of \$150,000 or more, the procedures set forth in paragraphs 2 and 3 of Appendix 1 to the Guidelines shall apply.

2. 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 the provisions of Sections I and 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, January 1999 and May 2002 (the Consultant Guidelines), paragraph 1 of Appendix 1 thereto, Appendix 2 thereto and the following provisions of Section II of this Section.

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, and the provisions of paragraphs 3.13 through 3.18 thereof applicable to quality- and cost-based selection of consultants.

Part C: Other Procedures for the Selection of Consultants

1. Selection Based on Consultants' Qualifications

Services of consulting firms 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. Individual Consultants

Services of individual consultants shall be procured under contracts awarded in accordance with the provisions of paragraphs 5.1 through 5.3 of the Consultant Guidelines.

3. Least-cost Selection

Services for financial audits and external evaluations may be procured under contracts awarded in accordance with the provisions of paragraphs 3.1 and 3.6 of the Consultant Guidelines

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

1. Prior Review

(a) With respect to each contract for the employment of consulting firms estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2, 3 and 5 of Appendix 1 to the Consultant Guidelines shall apply.

(b) With respect to each contract for the employment of individual consultants selected based on the provisions of 5.2 of the Consultants Guidelines estimated to cost the equivalent of \$50,000 or more, the report on the comparison of the qualifications and experience of candidates, 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. The provisions of paragraph 3 of Appendix 1 to the Consultant Guidelines shall also apply to such contracts.

2. 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

1. 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 7 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 January 31, 2002, a report integrating the results of the monitoring and evaluation activities performed pursuant to paragraph (a) of this Section, on the progress achieved in the carrying out of the Project during the period preceding the date of said report and setting out the measures recommended to ensure the efficient carrying out of the Project and the achievement of the objectives thereof during the period following such date; and

(c) review with the Association, by March 31, 2002, 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 B of the Project:

2. (a) The Borrower shall: (i) maintain the MASAF MU which shall be responsible for the implementation of Part B 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 the PWP, directors of the finance and administration divisions, as well as heads of PWP Subprojects, communications, internal audit, information technology and technical services units.

(b) The Borrower shall maintain the MASAF Board 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, 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 Part B 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 Part B of the Project, (iii) approve MASAF MU's annual work plans, (iv) review quarterly and annual reports and semi-annual and annual audits for Part B of the Project; and (v) review as part of the impact and sustainability assessments of Part B 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 Part B of the Project to cover the anticipated recurrent expenditures required for the carrying out activities of Part B of the Project.

3. The Borrower shall ensure that MASAF MU shall: (a) (i) maintain the Project Implementation Manuals for the implementation of Part B of the Project, (ii) take all measures necessary to ensure that Part B of the Project is carried out in conformity with the PIMs, and (iii) not amend or waive any provision thereof, if, in the opinion of the Association, such amendment or waiver will materially or adversely affect the implementation of Part B of the Project; and (b) prepare the annual workplans for approval by the MASAF Board.

4. 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 PIMs, that the PWP Subproject satisfies the eligibility criteria specified in more detail in the PIMs, 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.

5. Terms and conditions of financing for PWP Subprojects

For the purposes of each PWP Subproject to be finance out of the proceeds of the Credit, MASAF MU shall enter into a PWP Subproject Financing Agreement with a DEC, 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 PIMs, 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 DEC to use the proceeds of the Credit for the PWP Subproject upon the failure by the DEC to perform any of its obligations under the PWP Subproject Financing Agreement.

6. Eligibility Criteria for SSPs

Without limitation on the provisions of paragraph 2 above, no SSP 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 PIMs, that the SSP satisfies the eligibility criteria specified in more detail in the PIMs, which shall include the following:

(a) the SSP 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 SSP shall be initiated by a Sponsoring Agency;

(c) the SSP shall be economically, financially and technically viable in accordance with the standards specified in the PIMs;

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

(e) the SSP 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 SSPs Grants

For each SSP to be financed out of the proceeds of the Credit, MASAF MU shall enter into a SSP Grant 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 SSP Grant;

(b) the obligation to carry out the SSP in accordance with the PIMs, 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 SSP;

(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 SSP;

(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 SSP, 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 SSP; 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 SSP upon the failure by the Sponsoring Agency to perform any of its obligations under the SSP Grant Agreement.

Part C of the Project

8. The Borrower shall establish an MIS system, satisfactory to the Association, to monitor and report on a quarterly basis both the physical progress and financial status of Project.

## SCHEDULE 5

### Special Accounts

1. For the purposes of this Schedule:
  - (a) the term “eligible Categories” means Categories (1), (2), (3), (4), (5) and (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, works and services required for Parts A, B and C 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 \$3,800,000 in respect of the Special Account 1 for Parts A and C of the Project and an amount equivalent to \$1,000,000 in respect of the Special Account 2 for Part B thereof, to be withdrawn from the Credit Account and deposited into the Special Accounts pursuant to paragraph 3(a) of this Schedule.
2. Payments out of the respective Special Accounts 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 respective Special Accounts have been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the respective Special Accounts 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 respective Special Accounts 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 respective Special Accounts such amount or amounts as the Borrower shall have requested.
  - (b)
    - (i) For replenishment of the respective Special Accounts, the Borrower shall furnish to the Association requests for deposits into the respective Special Accounts at such intervals as the Association shall specify; and
    - (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 respective Special Accounts 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 respective Special Accounts 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 respective Special Accounts, 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 any 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 Accounts;

(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 for the respective Special Accounts for the Project, 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 respective Special Accounts 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 any 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 respective Special Accounts (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 any 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 any 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 Accounts.

(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**

**Eligible Imports to be Financed Under the Credit**

1. Petroleum and fuel products.
2. Agricultural inputs and equipment.
3. Construction equipment.
4. Spare parts.
5. Livestock, animal products and veterinary supplies.
6. School supplies.
7. Medical supplies and equipment.

**SCHEDULE 7**

**Performance Indicators**

1. Performance of Disbursement and Quantities of items Procured against positive list
2. Decline in number of under-five malnutrition
3. Number of participants in Public Works Programs increased
4. Number of drought mitigation studies undertaken
5. Increase in areas under irrigation