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GRANT NUMBER H480- MW

Financing Agreement

(Second Poverty Reduction Strategy Development Policy Financing)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 17, 2009

FINANCING AGREEMENT

AGREEMENT dated June 17, 2009, entered into between REPUBLIC OF MALAWI (“Recipient”) and INTERNATIONAL DEVELOPMENT ASSOCIATION (“Association”) for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, *inter alia*, of (a) the actions which the Recipient has already taken under the Program and which are described in Section I of the Schedule to this Agreement; and (b) the Recipient’s maintenance of an appropriate macro-economic policy framework. The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

- 1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.
- 1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

- 2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equivalent to twenty million one hundred thousand Special Drawing Rights (SDR 20,100,000) (referred to variously as “Grant” and “Financing”).
- 2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.
- 2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.
- 2.04. The Payment Dates are June 15 and December 15 in each year.
- 2.05. The Payment Currency is Dollars.

ARTICLE III — PROGRAM

- 3.01 The Recipient declares its commitment to the Program and its implementation. To this end:
- (a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the progress achieved in carrying out the Program;
 - (b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and
 - (c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall exchange views with the Association on any proposed action to be taken after the disbursement of the Financing which would have the effect of materially reversing the objectives of the Program, or any action taken under the Program including any action specified in Section I of the Schedule to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

- 4.01. The Additional Event of Suspension shall be that a situation has arisen which shall make it improbable that the Program, or a significant part of it, will be carried out.

ARTICLE V — EFFECTIVENESS

- 5.01. The Effectiveness Deadline is the date ninety (90) days after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

- 6.01. The Recipient's Representative is the Minister responsible for finance.
- 6.02. The Recipient's Address is:

Ministry of Finance
P.O. Box 30049
Capital City
Lilongwe 3
Malawi

Facsimile:

265-1-789173

6.03. The Association's Address is:

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

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423(MCI)	1-202-477-6391

AGREED at Lilongwe, Republic of Malawi, as of the day and year first above written.

REPUBLIC OF MALAWI

By /s/ Ken E. Kandodo
Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

By /s/ Timothy R. Gilbo
Authorized Representative

SCHEDULE

Program Actions; Availability of Financing Proceeds

Section I. Actions Taken Under the Program

The actions taken by the Recipient under the Program include the following:

1. Establishment of MAWTCO: The Recipient has, in accordance with paragraph 11 of the Letter of Development Policy, established MAWTCO, and has transferred at least two warehouses from ADMARC to MAWTCO, in form and substance satisfactory to the Association.
2. Performance Assessment of Private Sector Involvement in trade of Subsidized Fertilizer: The Recipient has, in accordance with paragraph 17 of the Letter of Development Policy, commissioned the start of performance assessment of private sector involvement in wholesale and retail trade of subsidized fertilizer based on agreed performance indicators, satisfactory to the Association.
3. Settlement of Commercial Disputes: In accordance with paragraph 29 of the Letter of Development Policy, the efficiency of the Recipient's commercial justice system has considerably increased to ensure that the average period for settlement of a commercial dispute is reduced to 290 days or less.
4. Fertilizer Subsidy Program for Poorer Households: In accordance with paragraph 33 of the Letter of Development Policy, the Recipient has implemented procedures satisfactory to the Association, to improve targeting of the fertilizer subsidy program to poorer households in line with its FY 2008/09 guidelines.
5. Budget Calendar: In accordance with paragraph 34 of the Letter of Development Policy, the Recipient has introduced a budget calendar incorporating all budget related activities.
6. HRMIS Review: In accordance with paragraph 35 of the Letter of Development Policy, the Recipient has carried out the HRMIS review and personnel audit of its civil service.
7. Timely Submission of Audit Reports: In accordance with paragraph 40 of the Letter of Development Policy, the Recipient has submitted the delayed audit report for FY 05/06 to the Parliament.
8. Debt and Aid Management Policy: In accordance with paragraph 37 of the Letter of Development Policy, the Recipient's Debt and Aid Management Policy has been approved by the Cabinet.

Section II. Availability of Financing Proceeds

A. General. The Recipient may withdraw the proceeds of the Financing in accordance with the provisions of this Section and such additional instructions as the Association may specify by notice to the Recipient.

B. Allocation of Financing Amounts

The Financing shall be withdrawn in a single tranche. The allocation of the amounts of the Financing to this end is set out in the table below:

Allocations	Amount of the Financing Allocated (expressed in SDR)
Single Tranche	20,100,000
TOTAL AMOUNT	20,100,000

C. Deposits of Financing Amounts

Except as the Association may otherwise agree:

1. all withdrawals from the Financing Account shall be deposited by the Association into an account designated by the Recipient and acceptable to the Association; and
2. the Recipient shall ensure that upon the deposit of an amount of the Financing into this account, an equivalent amount is accounted for in the Recipient's budget management system, in a manner acceptable to the Association.

D. Excluded Expenditures

The Recipient undertakes that the proceeds of the Financing shall not be used to finance Excluded Expenditures. If the Association determines at any time that an amount of the Financing was used to make a payment for an Excluded Expenditure, the Recipient shall, promptly upon notice from the Association, refund an amount equal to the amount of such payment to the Association. Amounts refunded to the Association upon such request shall be cancelled.

E. Closing Date. The Closing Date is June 30, 2010.

APPENDIX

Section I. Definitions

1. “ADMARC” means the Agricultural Development and Marketing Corporation a company incorporated under the Companies Act, Chapter 46:03 of the laws of the Recipient, and includes any successor thereto.
2. “Debt and Aid Management Policy” means the Recipient’s policy approved by the Recipient’s Cabinet in March 2009, setting forth the principles and guidelines for management of public debt and external aid.
3. “Excluded Expenditure” means any expenditure:
 - (a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;
 - (b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

Group	Sub-group	Description of Item
112		Alcoholic beverages
121		Tobacco, un-manufactured, tobacco refuse
122		Tobacco, manufactured (whether or not containing tobacco substitutes)
525		Radioactive and associated materials
667		Pearls, precious and semiprecious stones, unworked or worked
718	718.7	Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors
728	728.43	Tobacco processing machinery
897	897.3	Jewelry of gold, silver or platinum group metals (except watches and watch cases) and

		goldsmiths' or silversmiths' wares (including set gems)
971		Gold, non-monetary (excluding gold ores and concentrates)

- (c) for goods intended for a military or paramilitary purpose or for luxury consumption;
- (d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;
- (e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and
- (f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.
4. "Fiscal Year" means the Recipient's fiscal year which commences on July 1 of each calendar year and ends on June 30 of the following calendar year.
5. "HRMIS" means the Human Resource Management Information System introduced in September 2006, for management of personnel and payroll records of the Recipient's civil service.
6. "General Conditions" means the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006) with the modifications set forth in Section II of this Appendix.
7. "Letter of Development Policy" means the letter dated April 17, 2009, from the Recipient to the Association, describing the Program (as hereinafter defined), and declaring the Recipient's commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.
8. "MAWTCO" means the Malawi Warehousing and Trading Company, a company incorporated under the Companies Act, Chapter 46:03 of the laws of the Recipient, and includes any successor thereto.
9. "Parliament" means the parliament of the Recipient established pursuant to the Recipient's Constitution.
10. "Program" means the program of actions, objectives, and policies designed to promote growth and achieve a sustainable reduction in poverty set forth or referred to in the Letter

of Development Policy, declaring the Recipient's commitment to the execution of the Program, and requesting financial assistance from the Association for its execution.

11. "Single Tranche" means the amount of the Financing allocated to the category entitled "Single Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.

Section II. Modifications to the General Conditions

The modifications to the "International Development Association General Conditions for Credits and Grants", dated July 1, 2005 (as amended through October 15, 2006) are as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.
2. Sections 2.04 (*Designated Accounts*) and 2.05 (*Eligible Expenditures*) are deleted in their entirety, and the remaining Sections in Article II are renumbered accordingly.
3. Sections 4.01 (*Project Execution Generally*), and 4.09 (*Financial Management; Financial Statements; Audits*) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.
4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to *Use of Goods, Works and Services*) is deleted in its entirety.
5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

"Section 4.06. Plans; Documents; Records

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association's representatives to examine such records."

6. Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

Section 4.07. Program Monitoring and Evaluation

... (c) The Recipient shall prepare, or cause to be prepared, and furnish to the Association not later than six months after the Closing Date, a report of such scope and in such detail as the Association shall reasonably request, on the execution of the Program, the performance by the Recipient and the Association of their respective obligations under the Legal Agreements and the accomplishment of the purposes of the Financing.

7. The following terms and definitions set forth in the Appendix are modified or deleted as follows, and the following new terms and definitions are added in alphabetical order to the Appendix as follows, with the terms being renumbered accordingly:

- (a) The definition of the term “Eligible Expenditure” is modified to read as follows:

“‘Eligible Expenditure’ means any use to which the Financing is put in support of the Program, other than to finance expenditures excluded pursuant to the Financing Agreement.”

- (b) The term “Financial Statements” and its definition as set forth in the Appendix are deleted in their entirety.

- (c) The term “Project” is modified to read “Program” and its definition is modified to read as follows:

“‘Program’ means the program referred to in the Financing Agreement in support of which the Financing is made.” All references to “Project” throughout these General Conditions are deemed to be references to “Program”.