

CONFORMED COPY

CREDIT NUMBER 2514 MAI

Development Credit Agreement

(Agricultural Services Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated October 1, 1993

CREDIT NUMBER 2514 MAI

DEVELOPMENT CREDIT AGREEMENT

AGREEMENT, dated October 1, 1993, between REPUBLIC OF MALAWI (the Borrower) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS: (A) the Association has received a letter dated April 20, 1993, from the Borrower describing a program of objectives, policies and actions designed to strengthen the Borrower's agricultural sector (hereinafter called the Program) and declaring the Borrower's commitment to the execution of the Program;

(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;

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) "MOA" means the Borrower's Ministry of Agriculture;
- (b) "DREA" means the Department of Research and Environmental Affairs within the Borrower's Office of the President and Cabinet;
- (c) "DAR" means the Department of Agricultural Research within the Borrower's Ministry of Agriculture;
- (d) "ASC" means the Agricultural Sciences Committee;
- (e) "ADD" means an Agricultural Development Division;
- (f) "Project Preparation Advance" means the project preparation advance granted by the Association to the Borrower pursuant to an exchange of letters dated November 20, 1990, December 18, 1990, February 26, 1993, and March 16, 1993 between the Borrower and the Association; and
- (g) "Special Account" means the account referred to in Section 2.02 (b) of 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 this Agreement, an amount in various currencies equivalent to thirty-three million Special Drawing Rights (SDR 33,000,000).

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 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 US dollars a special deposit account in a commercial bank on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure or attachment. Deposits into, and payments out of, the Special Account shall be made in accordance with the provisions of Schedule 5 to this Agreement.

(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 September 30, 1999 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 cancelled; and (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 from the next payment 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 May 15 and November 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 semi-annual installments payable on each May 15 and November 15 commencing November 15, 2003 and ending May 15, 2033. Each installment to and including the installment payable on May 15, 2013 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 due consideration by them 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 MOA with due diligence and efficiency and in conformity with appropriate administrative, financial and agricultural 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: (i) carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement; and (ii) make adequate annual budgetary allocations and promptly release the appropriated funds to MOA and other Project implementing agencies consistent with the plan of action, work plans and criteria approved in accordance with the Implementation Program, and the Borrower's medium-term agricultural investment program, which shall be updated periodically and continue to be satisfactory to the Association.

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. The Borrower shall: (a) by not later than October 1, 1995 and October 1, 1997, respectively, carry out, jointly with the Association, comprehensive reviews to determine progress achieved in the implementation of the various components of the Project; and (b) thereafter promptly carry out any modifications and improvements in Project implementation recommended as a result of such reviews.

ARTICLE IV

Financial Covenants

Section 4.01. (a) The Borrower shall maintain or cause to be maintained records and accounts adequate to reflect in accordance with sound accounting practices the operations, resources and expenditures in respect of the Project of the departments or agencies of the Borrower responsible for carrying out the Project or any part thereof.

(b) The Borrower shall:

- (i) have the records and accounts referred to in paragraph (a) of this Section including those for the Special Account for each fiscal year audited, in accordance with appropriate auditing principles consistently applied, by independent auditors acceptable to the Association;
- (ii) furnish to the Association, as soon as available, but in any case not later than 9 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, accounts and the audit thereof as the Association shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Credit Account were made on the basis of statements of expenditure, the Borrower shall:

- (i) maintain or cause to be maintained, in accordance with paragraph (a) of this Section,

records and accounts reflecting such expenditures;

- (ii) retain, until at least one year after the Association has received the audit report for the fiscal year in which the last withdrawal from the Credit Account or payment out of the Special Account was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures;
- (iii) enable the Association's representatives to examine such records; and
- (iv) ensure that such records and accounts are included in the annual audit referred to in paragraph (b) of this Section and that the report of such audit contains a separate opinion by said auditors as to whether the statements of expenditure submitted during such fiscal year, together with the procedures and internal controls involved in their preparation, can be relied upon to support the related withdrawals.

ARTICLE V

Remedies of the Association

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

ARTICLE VI

Effective Date; Termination

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

(a) DREA has: (1) established, and appointed the head of the technical secretariat for the Agricultural Sciences Committee whose qualifications are satisfactory to the Association; and (2) has approved the secretariat's method of operation and work plan;

(b) MOA has issued an administrative circular formalizing the role of the Agricultural Sector Steering Committee including the committee's schedule of meetings for 1993/94; and

(c) MOA has appointed a procurement specialist, a transport systems advisor and a financial planning and management specialist whose qualifications are satisfactory to the Association.

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

ARTICLE VII

Representatives of the Borrower; Addresses

Section 7.01. 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 7.02. The following addresses are specified for the purposes of Section 11.01 of the General Conditions:

For the Borrower:

| | | |
|-----|--|--|
| | | 80% of local expenditures |
| (4) | Fertilizers under Part C of the Project | 2,600,000 100% |
| (5) | Operating Costs | 10,600,000 100% through December 31, 1996 and 60% thereafter |
| (6) | Refunding of Project Preparation Advance | 870,000 Amounts due pursuant to Section 2.02 (c) of this Agreement |
| (8) | Unallocated | 3,210,000 |
| | TOTAL | ----- 33,000,000 ===== |

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 incremental expenditures for fuel, lubricants, vehicles maintenance, subsistence and field lodging allowances for staff.

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; and (b) payments made or expenditures under Category (4), unless the Borrower has implemented policy reforms on fertilizer and an action plan, satisfactory to the Association.

SCHEDULE 2

Description of the Project

The objectives of the Project are: (a) to assist the Borrower's efforts to improve institutional and management reforms in research, extension and input supply with the aim of providing cost-effective and sustainable technologies suitable for smallholder farmers; and (b) to improve smallholder farm incomes and food security by increasing productivity and diversifying production on a sustainable basis.

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: Agricultural Research

Establishment of a cost-effective and sustainable research system to generate technology responsive to smallholder farmers' needs through:

(1) the formulation and implementation of research action plans;

(2) strengthening linkages between beneficiary farmers and providers of research and extension services;

(3) expanding research bodies' participation in publicly funded research consistent with their growing capacity;

(4) improvement of research priorities and funding through the strengthening of the Department of Agricultural Research and activating the Agricultural Sciences Committee; and

(5) improvement of DAR's management and staff incentives.

Part B: Agricultural Extension

Improvement of the efficiency and effectiveness of agricultural extension services to smallholder farmers, and development of appropriate management systems for the services.

Part C: Agricultural Inputs

1. Carrying out of a seeds multiplication, pricing, distribution and stocking policy to enhance the increased availability of improved seeds to smallholder farmers.

2. Increase the availability of fertilizer to smallholder farmers through: (a) the formulation and implementation of reforms to further liberalize the importation, pricing and distribution of fertilizer; and (b) the acquisition of incremental fertilizer through private sector importers.

Part D: Institutional Strengthening

1. Strengthening MOA's planning and management capability through training and technical assistance.

2. Improvement in the transport management system of MOA and ADDs through training, technical assistance and the acquisition of workshop equipment and computer hardware and software.

3. Improvement of the Borrower's procurement procedures.

4. Strengthening MOA's capacity in the analysis, formulation and planning of agricultural policies.

5. Strengthening the MOA's Department of Irrigation and farmers' groups capability to design and implement pilot small-scale irrigation schemes.

6. Strengthening MOA's capacity to carry out monitoring and evaluation of projects and policies.

* * *

The Project is expected to be completed by March 31, 1999.

SCHEDULE 3

Procurement and Consultants' Services

Section I. Procurement of Goods and Works

Part A: International Competitive Bidding

1. Except as provided in Part C hereof, goods 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 1992 (the Guidelines). For fixed-price contracts, the invitation to bid referred to in paragraph 2.13 of the Guidelines shall provide that, when contract award is delayed beyond the original bid validity period, the successful bidder's bid price will be increased for each week of delay by two predisclosed correction factors acceptable to the Association, one to be applied to all foreign currency components and the other to the local currency

component of the bid price. Such an increase shall not be taken into account in bid evaluation.

2. To the extent practicable, contracts for office equipment, vehicles and equipment shall be grouped into bid packages estimated to cost the equivalent of \$100,000 or more.

3. Goods to be procured through international competitive bidding shall be exempted from pre-shipment price inspection by third parties.

Part B: Preference for Domestic Manufacturers

In the procurement of goods in accordance with the procedures described in Part A.1 hereof, goods manufactured in Malawi may be granted a margin of preference in accordance with, and subject to, the provisions of paragraphs 2.55 and 2.56 of the Guidelines and paragraphs 1 through 4 of Appendix 2 thereto.

Part C: Other Procurement Procedures

1. Civil works estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$5,300,000, may be procured under contracts awarded on the basis of competitive bidding, advertised locally, in accordance with procedures satisfactory to the Association which shall include: (a) public opening of bids; (b) specified evaluation criteria; (c) confirmation of foreign bidders eligibility to participate in the bidding process; and (d) awards to be made to the lowest responsive competitive bidder.

2. Items or groups of items for goods estimated to cost the equivalent of \$100,000 or less per contract, up to an aggregate amount equivalent to \$1,400,000, may be procured under contracts awarded on the basis of comparison of price quotations obtained from at least three suppliers eligible under the Guidelines, in accordance with procedures acceptable to the Association.

3. Proprietary equipment and spare parts estimated to cost less than the equivalent of \$5,000 each, up to an aggregate amount equivalent to \$25,000 may be awarded after direct negotiations with suppliers, in accordance with procedures acceptable to the Association.

Part D: Review by the Association of Procurement Decisions

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

(a) With respect to each contract for goods and works estimated to cost the equivalent of \$100,000 or more, the procedures set forth in paragraphs 2 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract required to be furnished to the Association pursuant to said paragraph 2 (d) shall be furnished to the Association prior to the making of the first payment out of the Special Account in respect of such contract.

(b) With respect to each contract not governed by the preceding paragraph, the procedures set forth in paragraphs 3 and 4 of Appendix 1 to the Guidelines shall apply. Where payments for such contract are to be made out of the Special Account, such procedures shall be modified to ensure that the two conformed copies of the contract together with the other information required to be furnished to the Association pursuant to said paragraph 3 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 subparagraph (b) shall not apply to contracts on account of which withdrawals from the Credit Account are to be made on the basis of statements of

expenditure.

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

Section II. Employment of Consultants

1. In order to assist the Borrower in carrying out the Project, the Borrower shall employ experts and consultants whose qualifications, experience and terms and conditions of employment shall be satisfactory to the Association. Such 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.

2. Notwithstanding the provisions of paragraph 1 of this Section, the provisions of the Consultant Guidelines requiring prior Association review or approval of budgets, short lists, selection procedures, letters of invitation, proposals, evaluation reports and contracts shall not apply to contracts estimated to cost less than \$100,000 equivalent each. However, this exception to prior Association review shall not apply to the terms of reference for such contracts nor to the employment of individuals, to single source selection of firms, to assignments of a critical nature as reasonably determined by the Association and to amendments of contracts raising the contract value to \$100,000 equivalent or above.

SCHEDULE 4

Implementation Program

Project Coordination

1. The Principal Secretary, MOA, with the assistance of the Agricultural Sector Steering Committee (ASSC) shall be responsible for the overall implementation of the Project. ASSC, under the chairmanship of the Principal Secretary MOA, shall: (a) include the heads of MOA's departments responsible for the implementation of Project components, ADD program managers, senior officers from the Ministry of Finance, the Department of Economic Planning and Development and DREA; (b) meet quarterly to review the status of Project implementation based on progress reports to be prepared by MOA's Central Monitoring and Evaluation Unit; and (c) review and approve annual work plans and budgets and resolve any policy and coordination issues that may arise during the implementation of the Project.

2. To facilitate Project implementation the departments or units responsible for the implementation of the various components of the Project shall: (a) adopt and implement, for its respective component, a plan of action (the Plan of Action), satisfactory to the Association, including key actions, responsibilities and indicative timetables; and (b) prepare updated work plans and budgets consistent with: (i) the plan of action referred to in (a) above; and (ii) MOA's project planning and budgeting cycle, including the planned activities, budgetary resources required for investment and recurrent costs. With respect to activities in ADDS the work plans and budgets shall identify the administrative (including salaries) and operational expenditures.

3. Each implementing department shall, by not later than September 15 of each year of Project implementation, with effect from September 15, 1993, prepare and submit to ASSC, with copies for the Association, for their review, draft annual work plans and supporting draft budget estimates for the following fiscal year.

4. The Borrower shall: (a) release the annual budgetary allocation on a timely basis, consistent with criteria for operating expenditures, satisfactory to the Association to be finalized by August 1 of each year, with effect from August 1, 1993;

and (b) progressively increase its share of financing for operating expenditures commensurate with the decrease in the Association's share of financing operating expenditures under this Agreement.

5. The Borrower shall ensure that the implementation of the Project is carried out in accordance with environmental guidelines to be developed in the context of the National Environmental Action Plan.

Part A of the Project

6. DAR shall be responsible for the implementation of Part A of the Project, and as part of the work plan and budget to be submitted to ASSC and the Association as stipulated in paragraph 3 above, shall, by September 15 of each year, with effect from September 15, 1993, prepare and submit revised research action plans which are consistent with the national agricultural policy, National Research Master Plan and realistic budgetary ceilings; take account of the existing state of knowledge; estimate anticipated impact on farmers' production levels; ensure that technologies are environmentally sound; cover the entire spectrum of work from laboratory to the farmers' fields; be based on transparent cost estimates; defined types of cooperation planned with other research units and with extension; and list verifiable objectives.

7. DAR with the assistance of the Department of Agricultural Training and Extension, shall carry out an action plan, satisfactory to the Association, to strengthen linkages between research, extension and smallholder farmers, and by September 15 of each year during the implementation of the Project, with effect from September 15, 1993, submit a draft work plan and budget for the following year.

8. (a) DAR shall take appropriate measures to expand the use of contract research with suitably qualified research bodies including Chancellor College, Bunda College of Agriculture and the Tea Research Foundation, consistent with their growing capacity, and ensure that progress reports on contracted research are submitted to DAR by May 1 of each year of Project implementation.

(b) MOA shall, by July 1 of each year of Project implementation, with effect from July 1, 1993, advertise all contract research opportunities available in the ensuing year.

9. ASC, as the Borrower's advisory body on all matters pertaining to agricultural research, will be responsible to assist in the determination of research priorities and funding. ASC's main functions, method of operation, composition and action plan shall be satisfactory to the Association, and shall include converting the present research master plan into a comprehensive national research master plan; periodic revisions of the national master research plan; monitoring research programs funded by the public sector; promoting improved accountability; advising the Borrower on the allocation of public funds to program and research units (including private bodies); and fostering stronger links with regional and international research bodies. ASC will comprise senior representatives from public and private sector entities involved in promoting agricultural research and will meet at least three times a year to review progress and provide guidance in the above areas. DREA shall implement the action plan for ASC's operation, and with ASC's assistance, will update ASC's work plan for the ensuing year by September 15 of each year of Project implementation with effect from September 15, 1993 and submit it to the Association for review.

10. DAR shall: (a) prepare and, by September 15, 1993, commence the implementation of an action plan, satisfactory to the Association, for improving its management system, staff incentives and accountability; and (b) update the action plan annually and furnish it to the Association by September 15 of each year.

Part B of the Project

11. While the Chief Agricultural Extension and Training Officer (CAETO) will have overall responsibility for the implementation of Part B of the Project, extension activities within ADDs will be implemented by the program manager of the respective ADD. The CAETO will be responsible for coordinating implementation of field staff training.

12. MOA shall prepare and, by not later than June 30, 1993, commence the implementation of an action plan, satisfactory to the Association: (a) to delink credit and extension services; (b) to rationalize MOA's organizational structure and staffing; and (c) to improve field supervision, program budgeting and planning, and staff incentive system. MOA shall annually review and, as necessary, revise the action plan referred to in (c) above.

13. In order to ensure that field staff have mobility to fulfill their responsibilities, MOA shall prepare and implement a motorcycle ownership scheme for such staff, satisfactory to the Association.

Part C of the Project

14. MOA's Pricing and Marketing Unit will be responsible for the implementation of Part C of the Project, and shall adopt and implement policies, and action plans, satisfactory to the Association, for: (a) increasing the supply of improved maize seed by liberalizing production, pricing, marketing and formulating an improved stocking policy; and (b) increasing the supply of fertilizer by liberalizing the importation, pricing and distribution of fertilizer.

Part D of the Project

15. The Chief Accountant of MOA, as head of MOA's Finance Division, will be responsible for the implementation of the planning and financial management sub-component of Part D of the Project and shall adopt and, by July 1, 1993, commence the implementation of an action plan, satisfactory to the Association, to improve financial management and accounting systems.

16. MOA shall: (a) for the duration of Project implementation, assign to a senior officer at its headquarters the duties of coordination and monitoring of transport operations of ADDs and MOA's departments; and (b) implement a transport management action plan, satisfactory to the Association, to improve the efficiency and effectiveness of the delivery of agricultural services.

17. (a) MOA's Procurement Unit, with the assistance of the Ministry of Works, for civil works, and a procurement specialist, will be responsible for carrying out procurement work, and for formulating and implementing an action plan, satisfactory to the Association, including in-service and on-the-job training, to strengthen the capacity of MOA to handle procurement matters.

(b) The Ministry of Finance shall carry out an inter-ministerial procurement study, satisfactory to the Association, consistent with the Plan of Action.

18. MOA, through the Bunda College of Agriculture, will be responsible for the implementation of the agricultural policy analysis and training sub-component of the Project, and shall prepare and implement an action plan, satisfactory to the Association. The memorandum of understanding between MOA and Bunda College of Agriculture furnished to the Association for its review shall be satisfactory to the Association and finalized in accordance with the Plan of Action.

19. The Department of Irrigation within MOA shall carry out the small-scale irrigation sub-component of the Project, in accordance with criteria and an action plan satisfactory to the Association.

20. MOA shall carry out the monitoring and evaluation of the Project, in accordance with the Plan of Action, including: (a)

arranging for the evaluation of the Project by a suitably qualified institution, satisfactory to the Association; (b) preparing and submitting to the Association semiannual and biennial progress reports based on performance indicators satisfactory to the Association; and (c) preparing the Project Completion Report.

SCHEDULE 5

Special Account

1. For the purposes of this Schedule:

(a) the term "eligible Categories" means Categories (1) through (5) set forth in the table in paragraph 1 of Schedule 1 to this Agreement;

(b) the term "eligible expenditures" means expenditures in respect of the reasonable cost of goods and services required for the Project and to be financed out of the proceeds of the Credit allocated from time to time to the eligible Categories in accordance with the provisions of Schedule 1 to this Agreement; and

(c) the term "Authorized Allocation" means an amount equivalent to \$1,000,000 to be withdrawn from the Credit Account and deposited in the Special Account pursuant to paragraph 3 (a) of this Schedule.

2. Payments out of the Special Account shall be made exclusively for eligible expenditures in accordance with the provisions of this Schedule.

3. After the Association has received evidence satisfactory to it that the Special Account has been duly opened, withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Account shall be made as follows:

(a) For withdrawals of the Authorized Allocation, the Borrower shall furnish to the Association a request or requests for 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 paid out of the Special Account for eligible expenditures.

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

4. For each payment made by the Borrower out of the Special Account, the Borrower shall, at such time as the Association shall reasonably request, furnish to the Association such documents and

other evidence showing that such payment was made exclusively for eligible expenditures.

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

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

(b) once the total unwithdrawn amount of the Credit allocated to the eligible Categories, 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 the Project, shall equal the equivalent of twice the amount of the Authorized Allocation.

Thereafter, withdrawal from the Credit Account of the remaining unwithdrawn amount of the Credit allocated to the eligible Categories shall follow such procedures as the Association shall specify by notice to the Borrower. Such further withdrawals shall be made only after and to the extent that the Association shall have been satisfied that all such amounts remaining on deposit in the Special Account as of the date of such notice will be utilized in making payments for eligible expenditures.

6. (a) If the Association shall have determined at any time that any payment out of the Special Account: (i) was made for an expenditure or in an amount not eligible pursuant to paragraph 2 of this Schedule; or (ii) was not justified by the evidence furnished to the Association, the Borrower shall, promptly upon notice from the Association: (A) provide such additional evidence as the Association may request; or (B) deposit into the Special Account (or, if the Association shall so request, refund to the Association) an amount equal to the amount of such payment or the portion thereof not so eligible or justified. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Account shall be made until the Borrower has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association shall have determined at any time that any amount outstanding in the Special Account will not be required to cover further payments for eligible expenditures, the Borrower shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

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

(d) Refunds to the Association made pursuant to paragraphs 6 (a), (b) and (c) of this Schedule shall be credited to the Credit Account for subsequent withdrawal or for cancellation in accordance with the relevant provisions of this Agreement, including the General Conditions.

