

Public Disclosure Authorized

CONFIRMED COPY

IDA GRANT NUMBER H081 MAI

# Development Grant Agreement

(Community-Based Rural Land Development Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 30, 2004

Public Disclosure Authorized

**IDA GRANT NUMBER H081 MAI**

**DEVELOPMENT GRANT AGREEMENT**

AGREEMENT, dated June 30, 2004, between REPUBLIC OF MALAWI (the Recipient) and INTERNATIONAL DEVELOPMENT ASSOCIATION (the Association).

WHEREAS (A) the Association has received from the Recipient a letter dated February 12, 2004, describing a program of land policy reform (hereinafter referred to as the Program), and declaring the Recipient's commitment to the execution of the Program;

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

(C) the Association was authorized, under Resolution No. 549 adopted on September 29, 2002, by the Board of Governors of the International Bank for Reconstruction and Development (the Bank), to use the funds transferred to the Association out of the Bank's fiscal year 2002 net income to provide financing in the form of grants as well as loans, and the Executive Directors of the Association have determined that the development grant set forth in Section 2.01 of this Agreement (the Grant) is consistent with such policies; and

WHEREAS the Association has agreed, on the basis, inter alia, of the foregoing, to extend the Grant to the Recipient 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 (a) The following provisions of the General Conditions Applicable to Development Credit Agreements of the Association, dated January 1, 1985 (as amended through October 6, 1999), with the modifications set forth in paragraph (b) of this Section (the General Conditions) constitute an integral part of this Agreement:

- (i) Article I;
- (ii) Article II;
- (iii) Section 3.01;
- (iv) Sections 4.01 and 4.05;

- (v) Article V;
  - (vi) Sections 6.01, 6.02, 6.03, 6.04 and 6.06;
  - (vii) Section 8.01 (b);
  - (viii) Article IX;
  - (ix) Article X;
  - (x) Article XI; and
  - (xi) Sections 12.01, 12.02, 12.03 and 12.04.
- (b) The General Conditions shall be modified as follows:
- (i) the term “Borrower”, wherever used in the General Conditions, means the Recipient;
  - (ii) the term “Development Credit Agreement”, wherever used in the General Conditions, means this Agreement;
  - (iii) the term “Credit” and “credit”, wherever used in the General Conditions means the Grant; and
  - (iv) the term “Credit Account”, wherever used in the General Conditions, means the Grant Account.

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

(a) “Beneficiary Group” means a group of individuals who meet the eligibility criteria set forth in the PIM (as hereinafter defined) and organize themselves into a legally recognized entity for purposes of the purchase of Eligible Land (as hereinafter defined) under Part A of the Project;

(b) “CBRLD Project Steering Committee” means the Community Based Rural Land Development Project Steering Committee referred to in paragraph (a) (iii) of Section I of Schedule 4 to this Agreement;

(c) “District” means a local government area established pursuant to the Regional and District Boundaries and Place Names Act, Chapter 18:04 of the laws of the Recipient;

(d) “District Assembly” means a local authority constituted pursuant to the Local Government Act, Chapter 22:01 of the laws of the Recipient;

(e) “District Executive Committee” means a committee established pursuant to the Local Government Act, Chapter 22:01 of the laws of the Recipient, and referred to in paragraph (e) of Section II of Schedule 4 to this Agreement;

(f) “Eligible Categories” means category (1) with respect to the Special Account-MASAF (as hereinafter defined) and categories (2), (3), (4) and (5) with respect to Special Account-MOLPPS (as hereinafter defined), as set forth in the table in Part A.1 of Schedule 1 to this Agreement;

(g) “Eligible Expenditures” means the expenditures for goods, works, consultants’ services and the LAFD Subprojects (as hereinafter defined), referred to in Section 2.02 (a) of this Agreement;

(h) “Eligible Land” means land within the Project Districts (as hereinafter defined) that is sold by willing land estate owners, provided by the Recipient, or voluntarily donated by private individuals for purposes of Part A of the Project;

(i) “EMP” means the environmental management plan dated November 18, 2003, approved by the Association, and comprising an environmental, social screening and review process, a pest management plan, and a monitoring and evaluation system;

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

(k) “LAFD Grant Agreement” means a Land Acquisition and Farm Development Grant Agreement to be entered into between a Beneficiary Group and the MASAF-MU (as hereinafter defined), and referred to in paragraph (g) of Section II of Schedule 4 to this Agreement;

(l) “LAFD Subproject” means a subproject under which a Beneficiary Group purchases land and uses it for productive purposes in accordance with the provisions of the PIM (as hereinafter defined);

(m) “LAFD Subproject grant” means a grant to be provided to a Beneficiary Group for the purchase of land, a settlement allowance and working capital for farm development activities;

(n) “MASAF” means the Malawi Social Action Fund, established on July 1, 1995, as a semi-autonomous unit in the Recipient’s Office of the President and Cabinet;

(o) “MASAF-MU” means the Malawi Social Action Fund Management Unit established on July 1, 1995 in the Recipient’s Office of the President and Cabinet;

(p) “MOLPPS” means the Recipient’s Ministry of Lands, Physical Planning and Surveys;

(q) “NTAC” means the National Technical Advisory Committee, chaired by a representative of the Recipient’s Ministry of Finance and comprising representatives from the Recipient’s MOLPPS, Ministry of Education, Science & Technology, Ministry of Health, Ministry of Water Development, Ministry of Transport & Public Works, Ministry of Commerce & Industry, Ministry of Agriculture, Irrigation & Food Security, Ministry of Gender and Community Services, Ministry of Local Government, the National Local Government Finance Committee, and the Executive Secretary of Council for Non-Governmental Organizations in Malawi, established to approve LAFD Subproject proposals prepared by potential Beneficiary Groups;

(r) “PIM” means the Project Implementation Manual, acceptable to the Association, setting forth inter alia the Project’s institutional arrangements, and the procurement, financial management and disbursement procedures to be followed during Project implementation, as the same may be amended from time to time with the concurrence of the Association;

(s) “PMU” means the Project Management Unit established within MOLPPS for the purposes set forth in paragraph (a) ii of Section I of Schedule 4 to this Agreement;

(t) “Project Districts” means the Districts of Mulanje, Thyolo, Machinga and Mangochi within the Recipient’s territory, and such other Districts as may be agreed upon by the Recipient and the Association;

(u) “Project Preparation Advances” means the project preparation advances granted by the Association to the Recipient pursuant to the respective letter agreements signed on behalf of the Association on February 4, 2002 and on March 12, 2004, and on behalf of the Recipient on April 18, 2002 and April 14, 2004;

(v) “Report-based Disbursements” means the Recipient’s option for withdrawal of funds from the Grant Account referred to in Part A.5 of Schedule 1 to this Agreement;

(w) “Special Account-MASAF” means the special deposit account opened for withdrawals made in respect of expenditures made under Part A of the Project, and referred to in Part B of Schedule 1 to this Agreement;

(x) “Special Account-MOLPPS” means the special deposit account opened for withdrawals made in respect of expenditures made under Parts B, C and D of the Project, and referred to in Part B of Schedule 1 to this Agreement; and

(y) "Special Accounts" means the Special Account-MASAF and the Special Account-MOLPPS.

## **ARTICLE II**

### **The Grant**

Section 2.01. The Association agrees to make available to the Recipient, on the terms and conditions set forth or referred to in this Agreement, the Grant in an amount in various currencies equivalent to eighteen million one hundred thousand Special Drawing Rights (SDR 18,100,000).

Section 2.02. (a) The amount of the Grant may be withdrawn from the Grant Account in accordance with the provisions of Schedule 1 to this Agreement for: (i) land, goods, works and services for LAFD Subprojects under Part A of the Project; and (ii) expenditures made (or, if the Association shall so agree, to be made) in respect of the reasonable cost of goods and services for carrying out Parts B, C and D of the Project.

(b) Promptly after the Effective Date, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and pay to itself the amount required to repay the principal amount of the Project Preparation Advances 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 Advances shall thereupon be canceled.

Section 2.03. The Closing Date shall be June 30, 2009, or such later date as the Association shall establish. The Association shall promptly notify the Recipient of such later date.

Section 2.04. (a) The Recipient shall pay to the Association a commitment charge on the principal amount of the Grant 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 Recipient from the Grant 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 2.04 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 Recipient; and (iii) in Dollars or in such other eligible currency or

currencies as may from time to time be designated or selected pursuant to the provisions of Section 4.02 of the General Conditions.

Section 2.05. Commitment charges shall be payable semiannually on January 1 and July 1 in each year.

### **ARTICLE III**

#### **Execution of the Project**

Section 3.01. (a) The Recipient 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 Part A of the Project through the MASAF-MU and Parts B, C and D of the Project through the MOLPPS, with due diligence and efficiency and in conformity with appropriate administrative, environmental, financial, land and technical 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 Recipient and the Association shall otherwise agree, the Recipient shall carry out the Project in accordance with the Implementation Program set forth in Schedule 4 to this Agreement.

Section 3.02. Except as the Association shall otherwise agree, procurement of the land, goods, works and consultants' services required for the Project and to be financed out of the proceeds of the Grant 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 Recipient shall:

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

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

Section 3.04. The Recipient shall provide its counterpart contribution to the Project in a timely manner in the form of land for Part A of the Project in such amounts as shall have been agreed to with the Association.

### **ARTICLE IV**

#### **Financial Covenants**

Section 4.01. (a) The Recipient shall establish and maintain a financial management system, including records and accounts, and prepare financial statements in accordance with consistently applied accounting standards acceptable to the Association, adequate to reflect the operations, resources and expenditures related to the Project.

(b) The Recipient shall:

- (i) have the financial statements referred to in paragraph (a) of this Section and the records and accounts for the Special Accounts for each fiscal year, commencing with the fiscal year in which the first withdrawal under the Project Preparation Advance was made, 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 shall from time to time reasonably request.

(c) For all expenditures with respect to which withdrawals from the Grant Account were made on the basis of statements of expenditure or on the basis of the reports referred to in Part A.5 of Schedule 1 to this Agreement (Report-based Disbursements), the Recipient shall:

- (i) ensure that all records (contracts, orders, invoices, bills, receipts and other documents) evidencing such expenditures are retained until at least one year after the end of the fiscal year in which the last withdrawal from the Grant Account was made;
- (ii) enable the Association's representatives to examine such records; and
- (iii) ensure that such reports or statements of expenditure are included in any audit that the Association may have requested pursuant to paragraph (b) of this Section.



Section 4.02. (a) Without limitation upon the Recipient's progress reporting obligations set out in paragraph 4 of Section III of Schedule 4 to this Agreement, the Recipient shall prepare 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 Grant 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**

### **Remedies of the Association**

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

## ARTICLE VI

### Effectiveness; Termination

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

(a) the Recipient has appointed the following key staff under terms of reference acceptable to the Association and in accordance with the provisions of Section II of Schedule 3 to this Agreement: the Project manager, the finance manager and the procurement specialist; and

(b) the Recipient has advertised the position of the Project's independent evaluator in accordance with the provisions of Section II of Schedule 3 to this Agreement, for purposes of Part D of the Project.

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.

Section 6.03. This Agreement shall continue in effect until the Grant has been fully disbursed and the parties to this Agreement have fulfilled their obligations hereunder.

**ARTICLE VII**

**Representative of the Recipient; Addresses**

Section 7.01. The Minister of Finance of the Recipient is designated as representative of the Recipient 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 Recipient:

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, N.W.  
Washington, D.C. 20433  
United States of America

Cable address:	Telex:	Facsimile:
INDEVAS Washington, D.C.	248423 (MCI) 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 Lilongwe, Republic of Malawi, as of the day and year first above written.

REPUBLIC OF MALAWI

/s/ Goodall Gondwe

By

Authorized Representative

INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Hartwig Schafer

By

Authorized Representative

**SCHEDULE 1**

**A. Withdrawal of the Proceeds of the Grant**

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

<u>Category</u>	<u>Amount of the Grant Allocated (Expressed in SDR Equivalent)</u>	<u>% of Expenditures to be Financed</u>
(1) LAFD Subprojects	9,500,000	100% of amounts disbursed
(2) Goods	1,210,000	100% of foreign expenditures 80% of local expenditures
(3) Consultant Services	1,440,000	100% of foreign expenditures and 80% of local expenditures
(4) Training and Workshops	1,590,000	100% of foreign expenditures 80% of local expenditures
(5) Operating Costs	2,680,000	85% in 2004/05 80% in 2005/06 75% thereafter
(6) Refunding of Project Preparation Advances	510,000	Amount due pursuant to Section 2.02 (b) of this Agreement
(7) Unallocated	1,170,000	
<b>TOTAL</b>	<u>18,100,000</u> =====	

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 Recipient for goods or services supplied from the territory of any country other than that of the Recipient;

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

(c) the term “Operating Costs” means the incremental costs incurred by the Recipient in the implementation, management and supervision of the Project for salaries and benefits for contractual staff, per diems, office supplies, vehicle fuel, maintenance and insurance for motor vehicles, office equipment and furniture, utilities and office rent, but excluding the salaries of the Recipient’s civil servants.

3. Notwithstanding the provisions of paragraph 1 above, no withdrawals shall be made in respect of payments made for expenditures prior to the date of this Agreement.

4. The Association may require withdrawals from the Grant Account to be made on the basis of statements of expenditure for expenditures under contracts for: (a) goods costing less than \$150,000 equivalent per contract; (b) services of individual consultants costing less than \$50,000 equivalent per contract; (c) services of consulting firms under contracts costing less than \$100,000 equivalent per contract; (d) training and workshops; (e) Operating Costs; and (f) the LAFD Subprojects, all under such terms and conditions as the Association shall specify by notice to the Recipient.

5. The Recipient may request withdrawals from the Grant Account to be made on the basis of reports to be submitted to the Association in form and substance satisfactory to the Association, such reports to include the FMR and any other information as the Association shall specify by notice to the Recipient (Report-based Disbursements). In the case of the first such request submitted to the Association before any withdrawal has been made from the Grant Account, the Recipient shall submit to the Association only a statement with the projected sources and applications of funds for the Project for the quarter following the date of such request.

## **B. Special Accounts**

1. The Recipient may open and maintain in Dollars two special deposit accounts (Special Account-MASAF and Special Account-MOLPPS) in a commercial bank acceptable to the Association, on terms and conditions satisfactory to the Association, including appropriate protection against set-off, seizure and attachment.

2. After the Association has received evidence satisfactory to it that the Special Accounts have been opened, withdrawals from the Grant Account of amounts to be deposited into the Special Accounts shall be made as follows:

(a) if the Recipient is not making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex A to this Schedule 1; and

(b) if the Recipient is making Report-based Disbursements, withdrawals shall be made in accordance with the provisions of Annex B to this Schedule 1.

3. Payments out of the Special Accounts shall be made exclusively for Eligible Expenditures. For each payment made by the Recipient out of the Special Accounts, the Recipient 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.

4. Notwithstanding the provisions of Part B.2 of this Schedule, the Association shall not be required to make further deposits into the Special Accounts:

(a) if the Association, at any time, is not satisfied that the reports referred to in Part A.5 of this Schedule 1 adequately provide the information required for Report-based Disbursements;

(b) if the Association determines at any time that all further withdrawals for payment of Eligible Expenditures should be made by the Recipient directly from the Grant Account; or

(c) if the Recipient 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: (A) the records and accounts for the Special Accounts; or (B) the records and accounts reflecting expenditures with respect to which withdrawals were Report-based Disbursements or were made on the basis of statements of expenditure, as the case may be.

5. The Association shall not be required to make further deposits into the Special Accounts in accordance with the provisions of Part B.2 of this Schedule if, at any time, the Association shall have notified the Recipient of its intention to suspend in whole or in part the right of the Recipient to make withdrawals from the Grant Account pursuant to Section 6.02 of the General Conditions. Upon such notification, the Association shall determine, in its sole discretion, whether further deposits into the Special Accounts may be made and what procedures should be followed for making such deposits, and shall notify the Recipient of its determination.

6. (a) If the Association determines at any time that any payment out of the Special Accounts was made for an expenditure which is not an Eligible Expenditure, or was not justified by the evidence furnished to the Association, the Recipient shall, promptly upon notice from the Association, provide such additional evidence as the Association may request, or deposit into the respective Special Account (or, if the

Association shall so request, refund to the Association) an amount equal to the amount of such payment. Unless the Association shall otherwise agree, no further deposit by the Association into the Special Accounts shall be made until the Recipient has provided such evidence or made such deposit or refund, as the case may be.

(b) If the Association determines at any time that any amount outstanding in the Special Accounts will not be required to cover payments for Eligible Expenditures during the six-month period following such determination, the Recipient shall, promptly upon notice from the Association, refund to the Association such outstanding amount.

(c) The Recipient 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 subparagraph (a), (b) or (c) of this paragraph 6 shall be credited to the Grant Account for subsequent withdrawal or for cancellation in accordance with the provisions of the Development Grant Agreement.



**Annex A**  
**to**  
**SCHEDULE 1**  
**Operation of Special Accounts When Withdrawals Are Not**  
**Report-based Disbursements**

1. For the purposes of this Annex, the term “Authorized Allocation” means:
  - (i) in respect of Special Account-MASAF, an amount equivalent to \$1,200,000 to be withdrawn from the Grant Account and deposited into the Special Account-MASAF pursuant to paragraph 2 of this Annex; and
  - (ii) in respect of Special Account-MOLPPS, an amount equivalent to \$700,000 to be withdrawn from the Grant Account and deposited into the Special Account-MOLPPS pursuant to paragraph 2 of this Annex.
  
2. Withdrawals of the Authorized Allocation and subsequent withdrawals to replenish the Special Accounts shall be made as follows:
  - (a) For withdrawals of the Authorized Allocation, the Recipient shall furnish to the Association a request or requests for deposit into the respective Special Account of an amount or amounts which in the aggregate do not exceed the Authorized Allocation. On the basis of each such request, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into the respective Special Account such amount as the Recipient shall have requested.
  
  - (b) For replenishment of the respective Special Account, the Recipient shall furnish to the Association requests for deposit into the respective Special Account at such intervals as the Association shall specify. Prior to or at the time of each such request, the Recipient shall furnish to the Association the documents and other evidence required pursuant to Part B.3 of Schedule 1 to this Agreement 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 Recipient, withdraw from the Grant Account and deposit into the respective Special Account such amount as the Recipient shall have requested and as shall have been shown by said documents and other evidence to have been paid out of the respective Special Account for Eligible Expenditures. Each such deposit into the respective Special Account shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.
  
3. The Association shall not be required to make further deposits into the respective Special Account once the total unwithdrawn amount of the Grant minus the total amount of all outstanding special commitments entered into by the Association pursuant to

Section 5.02 of the General Conditions shall equal the equivalent of twice the amount of the respective Authorized Allocation. Thereafter, withdrawal from the Grant Account of the remaining unwithdrawn amount of the Grant shall follow such procedures as the Association shall specify by notice to the Recipient. 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 Account as of the date of such notice will be utilized in making payments for Eligible Expenditures.

**Annex B**  
**to**  
**SCHEDULE 1**  
**Operation of Special Accounts**  
**When Withdrawals Are**  
**Report-based Disbursements**

1. Withdrawals from the Grant Account shall be deposited by the Association into the Special Accounts in accordance with the provisions of Schedule 1 to this Agreement. Each such deposit into the Special Accounts shall be withdrawn by the Association from the Grant Account under one or more of the Eligible Categories.
  
2. Upon receipt of each application for withdrawal of an amount of the Grant, the Association shall, on behalf of the Recipient, withdraw from the Grant Account and deposit into each respective Special Account an amount equal to the lesser of: (a) the amount so requested; and (b) the amount which the Association has determined, based on the reports referred to in Part A.5 of this Schedule 1 applicable to such withdrawal application, is required to be deposited in order to finance Eligible Expenditures during the quarter following the date of such reports.

## **SCHEDULE 2**

### **Description of the Project**

The objective of the Project is to increase the incomes of about fifteen thousand (15,000) poor rural families through the implementation of a decentralized, voluntary community-based land reform pilot program on Eligible Land in the Project Districts.

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

#### Part A: Land Acquisition and Farm Development Subprojects

Carrying out of LAFD Subprojects, through the acquisition and development of land by Beneficiary Groups.

#### Part B: Land Administration

Strengthening the Recipient's land administration system through the development of the capacity of the MOLPPS at both the national and the local government levels to assist the Beneficiary Groups in the purchase and transfer of land acquired under the Project, through the provision of training, acquisition of equipment and vehicles, and Operating Costs.

#### Part C: Capacity Building

Carrying out capacity building activities targeted at the PMU, MOLPPS, District Executive Committees, traditional community leaders, civil society organizations, professional associations, Beneficiary Groups and vulnerable groups such as women and the destitute including the: (i) dissemination of Project related information and procedures; (ii) establishment of a land data base and publication of a Project Districts news letter; and (iii) provision of support to Beneficiary Groups in the land acquisition and development process through mobilization of Beneficiary Groups, carrying out of participatory rural appraisals, farm assessments and purchase negotiations, preparation of farm development proposals, environmental impact assessments and pest management techniques.

#### Part D: Project Management, Monitoring and Evaluation

1. Project Management, including administration, coordination and supervision of activities to be implemented under the Project.
2. Design and implementation of a monitoring and evaluation system to assess inter alia: (i) the number and cost of farms acquired under the Project by Beneficiary Groups;

(ii) number of poor, rural families that benefit from the Project; and (iii) the speed with which Beneficiary Groups commence agricultural production on purchased land.

\* \* \*

The Project is expected to be completed by December 31, 2008.

### **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

Except as otherwise provided in Part C of this Section, 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.

###### Part C: Other Procurement Procedures

###### 1. National Competitive Bidding

Goods estimated to cost more than \$30,000 equivalent and 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.

###### 2. International or National Shopping

Goods estimated to cost less than \$30,000 equivalent per contract may be procured under contracts awarded on the basis of international/national shopping procedures in accordance with the provisions of paragraphs 3.5 and 3.6 of the Guidelines.

###### 3. Direct Contracting

Goods which should be procured as an extension of an existing contract or must be purchased from the original supplier to be compatible with existing equipment or are of a proprietary nature or must be procured from a particular supplier as a condition of a performance guarantee and costing \$1,000,000 equivalent or less in the aggregate, may, with the Association's prior agreement, be procured in accordance with the provisions of paragraph 3.7 of the Guidelines.

4. Community Participation

Procurement for the LAFD Subprojects under Part A of the Project shall be carried out in accordance with procedures acceptable to the Association set forth in the PIM.

Part D: Review by the Association of Procurement Decisions

1. Procurement Planning

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

2. Prior Review

With respect to: (a) the first two LAFD Subprojects in each of the Project Districts; and (b) the first two contracts for goods procured under National Competitive Bidding procedures, the first three contracts procured under National/International Shopping procedures, and thereafter each contract 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.

3. Post Review

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

Section II. Employment of Consultants

Part A: General

Consultants' services shall be procured in accordance with 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 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.

2. The following provision shall apply to consultants' services to be procured under contracts awarded in accordance with the provisions of the preceding paragraph: the short list of consultants for services estimated to cost less than \$100,000 equivalent per contract, may comprise entirely national consultants in accordance with the provisions of paragraph 2.7 and footnote 8 of the Consultant Guidelines.

Part C: Other Procedures for the Selection of Consultants

1. Least-cost Selection

Services for audits or other activities 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 3.6 of the Consultant Guidelines.

2. Selection Based on Consultants' Qualifications

Services 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.

3. Single Source Selection

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

4. Individual Consultants

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

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

1. Selection Planning

A plan for the selection of consultants, which shall include contract cost estimates, contract packaging, and applicable selection criteria and procedures, shall be furnished to the Association for its review and approval prior to the issuance to consultants of any requests for proposals. Such plan shall be updated annually during the execution of the Project, and each such updating shall be furnished to the Association for its review and approval.



2. 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 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.

3. Post Review

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

## **SCHEDULE 4**

### **Implementation Program**

#### Section I: Project Implementation Generally

##### Project Management

The Recipient shall:

(i) MASAF-MU:

maintain the MASAF-MU until the completion of the Project for purposes of the implementation of Part A of the Project, including the procurement and financial management aspects, and shall to this end, appoint thereto staff with qualifications, experience and terms of reference acceptable to the Association.

(ii) PMU:

maintain throughout Project implementation the PMU and appoint thereto staff having experience and qualifications satisfactory to the Association. The PMU shall be responsible for the implementation of Parts B, C and D of the Project, and shall collaborate, as necessary, with the MASAF-MU with respect to the implementation of Part A of the Project.

(iii) CBRLD Project Steering Committee:

maintain through out Project implementation the CBRLD Project Steering Committee to oversee the overall implementation of the Project.

(b) The Recipient shall carry out the Project in accordance with procedures set forth in the PIM and the EMP, and except as the Association shall otherwise agree, shall not amend or waive any provisions thereof if such amendment or waiver, may in the opinion of the Association, materially or adversely affect the implementation of the Project.

#### Section II: LAFD Subprojects: Eligibility Criteria and Procedures

(a) Potential Beneficiary Groups shall submit a proposal to receive funds for the purchase of land under the Project to the land officer in the relevant Project District who shall make a preliminary desk appraisal of the proposal taking into account the agreed eligibility criteria specified in the PIM, including confirmation that the members of the Beneficiary Group are: (i) Malawian citizens; (ii) poor and do not own or own

insignificant portions of land insufficient to support their subsistence; and (iii) willing to farm and capable of undertaking the LAFD Subproject as a group.

(b) A pre-qualified Beneficiary Group shall identify a farm for purchase, from the Eligible Land, negotiate the sale price with the existing land owner and enter into a provisional sale agreement. The Beneficiary Group shall also draw up a preliminary farm plan which shall describe inter alia: (i) the nature of the proposed agricultural production; (ii) a basic land use and environmental plan; (iii) the form of legal entity under which the Beneficiary Group proposes to acquire the farm; and (iv) the property regime under which the Beneficiary Group proposes to hold the land.

(c) The Beneficiary Group shall submit the provisional sale agreement and farm plan to the relevant District land officer who shall upon receipt thereof issue a public notice announcing the intended sale and inviting anyone with a prior claim to the land to declare their interest therein within twenty-one (21) days of issuing such notice.

(d) The District land officer shall lead a team to carry out a field appraisal during which the said team shall inter alia: (i) confirm that the proposed Beneficiary Group meets the agreed eligibility criteria as set forth in the PIM; (ii) review the provisional sale agreement, farm purchase price and farm plan; (iii) review the environmental and social aspects affecting the proposed land purchase; and (iv) carry out a preliminary determination as to whether the land title is free of any encumbrances and not subject to any prior claims, pending the expiration of the notice issued under paragraph (c) of this Section II.

(e) The District land officer shall submit all proposals with a positive outcome at field appraisal stage to the District Executive Committee which shall inter alia assess the following: (i) that the Beneficiary Group has met the agreed eligibility criteria set forth in the PIM; (ii) that the proposed sale price is fair and reflective of prevailing market conditions; (iii) the validity of the proposed farm plan; (iv) the environmental and social aspects and proposed mitigation measures; (v) that the twenty-one (21) day notice issued by the District land officer under paragraph (c) of this Section II has lapsed without any objections to the proposed land purchase being made by any party; and (vi) the key communal infrastructure that could be financed from the MASAF.

(f) Land acquisition and farm development proposals approved by the District Executive Committee will be submitted to the PMU for submission to the NTAC for final approval.

(g) Following NTAC approval, the Beneficiary Group shall enter into the LAFD Grant Agreement with the MASAF-MU which shall have terms and conditions which shall include the following:

- (i) details of the proposed land purchase;

- (ii) five per cent (5%) of the remaining LAFD Subproject grant after payment for the land purchase is made shall be provided to the Beneficiary Group as a settlement allowance and the remainder as farm development working capital to be disbursed in three tranches of forty per cent (40%), thirty per cent (30%) and thirty per cent (30%), respectively;
- (iii) the Beneficiary Group shall implement the LAFD Subproject with due diligence and efficiency, in accordance with the PIM and sound technical, financial, environmental and managerial standards;
- (iv) the Beneficiary Group shall establish a project management committee to manage the implementation of the farm development activities;
- (v) a detailed farm development plan;
- (vi) the obligations of the Beneficiary Group including the provision of at least ten per cent (10%) of the farm development portion of the LAFD Subproject grant as a cash or in-kind contribution, and implementation of any required environmental management measures;
- (vii) the Beneficiary Group shall maintain adequate records reflecting the operations, resources and expenditures incurred under the LAFD Subproject in accordance with sound accounting practices acceptable to the Association;
- (viii) the land, goods, works and services financed from the proceeds of the grant shall be procured in accordance with the procedures set forth in Schedule 3 to the Development Grant Agreement, and used exclusively for the implementation of the LAFD Subproject; and
- (ix) the right of the Recipient to inspect by itself, or jointly with the Association, if the Association shall so request, the land, goods, works and operations thereof, and any relevant records or documents.

(h) Once the LAFD Grant Agreement is duly signed by the parties thereto, the MASAF-MU shall issue Bank cheque to the seller of the land and property ownership shall be transferred to the Beneficiary Group in its selected legal form. The Beneficiary Group shall subsequently receive its settlement allowance and farm development working capital, in accordance with the terms of the said LAFD Grant Agreement.

Section III: Progress Reviews/Monitoring and Evaluation

1. Annual Procurement Plans:

The Recipient shall provide to the Association during each year of Project implementation a procurement plan to be submitted no later than May 15 of each such year.

2. Semi-annual financial audits:

Without limitation to the provisions of Article IV of this Agreement, the Recipient shall carry out an additional financial audit half-way into each Project fiscal year. The financial audits of the Project shall be used as a basis for the preparation of an action plan to strengthen the Project's system of financial management at the community, District and national levels.

3. Independent Evaluator:

The Recipient shall appoint an independent evaluator for the Project within six months of the Effective Date of this Agreement.

4. Mid-term Review:

The Recipient shall:

(a) maintain policies and procedures adequate to enable it to monitor and evaluate on an ongoing basis, in accordance with indicators set forth in Schedule 5 to this Agreement, the carrying out of the Project and the achievement of the objectives thereof;

(b) prepare, under terms of reference satisfactory to the Association, and furnish to the Association, on or about September 30, 2006, 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. The report would be used as the basis for discussions during the mid-term review carried out on the date set forth in paragraph (c) below; and

(c) review with the Association, by December 31, 2006, 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.

## **SCHEDULE 5**

### **Performance Monitoring Indicators**

1. Number of poor, rural families settled on farms acquired through the Project.
2. The number of hectares of land acquired, and the cost and speed of land acquisition, for each Beneficiary Group.
3. The speed and cost of commencing agricultural production on purchased land for each Beneficiary Group.
4. Changes in the income levels of families participating in the Project.
5. Changes in agricultural production levels.
6. Number of Beneficiary Groups that have received land ownership title documentation.
7. Number of hectares of land registered, the speed and cost of the land registration process, and the number of sketch maps completed.
8. Number and quality of land acquisition and farm development proposals received from eligible Beneficiary Groups, number of LAFD Subprojects approved, and the number of LAFD Subprojects with LAFD Subproject grants fully disbursed and accounted for.
9. Timeliness and quality of content of the reports generated from the Project's monitoring and evaluation system.