The World Bank  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.  
Washington, D.C. 20433  
U.S.A.

(202) 473-1000  
Cable Address: INTBAFRAD

August 13, 2012

Honorable Dr. Ken Lipenga, M.P.  
Minister of Finance  
Ministry of Finance  
P. O. Box 30049  
Capital City  
 Lilongwe 3  
Malawi

Re: Grant No. TF012935  
Republic of Malawi - Mining Governance and Growth Support Project

Honorable Minister:

In response to the request for financial assistance made on behalf of the Republic of Malawi ("Recipient"), I am pleased to inform you that the International Development Association ("World Bank"), acting as administrator of grant funds provided by the European Union, represented by the European Commission (the "Commission" or the "Donor" under the Malawi Mining Technical Assistance Project Trust Fund, proposes to extend to the Recipient a grant in an amount not to exceed one million nine hundred thirty three thousand sixty one Euros (€1,933,061) ("Grant") on the terms and conditions set forth or referred to in this letter agreement ("Agreement"), which includes the attached Annex, to assist in the financing of the project described in the Annex ("Project").

This Grant is funded out of the abovementioned trust fund for which the World Bank receives periodic contributions from the Donor. In accordance with Section 3.02 of the Standard Conditions (as defined in the Annex to this Agreement), the World Bank's payment obligations in connection with this Agreement are limited to the amount of funds made available to it by the Donor under the abovementioned trust fund, and the Recipient's right to withdraw the Grant proceeds is subject to the availability of such funds.

The Recipient represents, by confirming its agreement below, that it is authorized to enter into this Agreement and to carry out the Project in accordance with the terms and conditions set forth or referred to in this Agreement.
Please confirm the Recipient's agreement to the foregoing by having an authorized official of the Recipient sign and date the enclosed copy of this Agreement, and returning it to the World Bank. Upon receipt by the World Bank of this countersigned copy, this Agreement shall become effective as of the date specified in Section 5.02 of the Annex of this Agreement.

Very truly yours,

INTERNATIONAL DEVELOPMENT ASSOCIATION

By __________________________
Kundhavi Kadhresan
Country Director for Malawi
Africa Region

AGREED:
REPUBLIC OF MALAWI

By __________________________
Authorized Representative

Name: HON. DR. KEN LIPENGZI, MP
Title: MINISTER OF FINANCE
Date: AUGUST 22, 2012

Enclosures:

(2) Disbursement Letter of the same date as this Agreement, together with World Bank Disbursement Guidelines for Projects, dated May 1, 2006
Article I
Standard Conditions; Definitions

1.01. **Standard Conditions.** The Standard Conditions for Grants Made by the World Bank out of Various Funds dated February 15, 2012 ("Standard Conditions") constitute an integral part of this Agreement.

1.02. **Definitions.** Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the Standard Conditions or in this Agreement and the following terms have the following meanings:

1. "Action Plan" means the Action Plan to be prepared pursuant to Section 2.03(E) of this Annex.

2. "Annual Work Plan" means each annual work plan, together with the related budget, for the Project approved by the World Bank pursuant to the provisions of Section 2.03(C) of this Annex.


4. "Category" means a category set forth in the table in Section 3.01 of this Annex.

5. "Disbursement Deadline Date" refers to the Closing Date or such later date established by the World Bank for receipt of applications for withdrawal (and supporting documentation) pursuant to Section 3.7 of the "World Bank Disbursement Guidelines for Projects" dated May 2006, as revised from time to time by the World Bank.

6. "Financing Agreement" means the agreement dated November 2, 2011, between the Recipient and the World Bank, providing a credit in support of the Project (Credit Number 4901-NW).

7. "MNREE" means the Recipient’s Ministry of Natural Resources, Energy and Environment, or any successor thereto.

8. "Operating Costs" means incremental recurrent expenditures incurred on account of Project implementation, including: local contractual support staff salaries; travel expenditures and other travel-related allowances; equipment rental and maintenance; vehicle operation (including fuel), maintenance and repair; office rental and maintenance, materials and supplies; and utilities, media information campaigns and communications’ expenses, but excluding the salaries of officials and public servants of the Recipient’s civil service.
5. “Project Implementation Manual” means the manual referred to in Section 2.03(D) of this Annex as may be revised from time to time with the prior written consent of the World Bank.

10. “Project Management Team” means the team referred to in Section 2.03(A) of this Annex.

11. “Public Procurement Regulations” means the Public Procurement Regulations made pursuant to section 43 of the Public Procurement Act, Chapter 37:03 of the Laws of the Recipient.

12. “Strategic Environmental and Social Assessment” or “SESA” means the assessment to be carried out by the Recipient under Part A(5) of the Project in accordance with the provisions of Section 2.03(E) of this Annex.

13. “Training” means the training of persons under the Project, including seminars, workshops, knowledge sharing activities and study tours, and covers the following costs associated with such activity: travel and subsistence costs for training participants, costs associated with securing the services of trainers, rental of training facilities, preparation and reproduction of training materials, and other costs directly related to training preparation and implementation.

Article II
Project Execution

2.01. Project Objectives and Description. The objective of the Project is to improve the efficiency, transparency and sustainability of mining sector management. The Project consists of the following parts:

PART A: Managing Mineral Rights and Operations

1. Public Communications, Outreach and Stakeholder Dialogue

Establishment of a continuous and formal process for stakeholder dialogue on mining policies and policy implementation, and design of MNREE’s communications and outreach plan designed to enhance public awareness of the mining policies.

2. Reforming Minerals Legislation

Implementation of a program of activities aimed at developing drafting instructions for the Recipient’s mining legislation covering mineral licensing, monitoring and inspection functions, health, safety, environmental standards; and preparation of a model mineral development agreement.

3. Modernizing Minerals Licensing

Establishment of a modern computer-based cadastral system and a supporting administrative structure within the MNREE for the efficient and transparent
management by the MNREE of mineral exploration and mining rights; and provision of goods required for the purpose.

4. **Strengthening Mineral Operations Supervision**

Expansion of capacity within the MNREE for effective regular supervision of exploration, mining and mineral processing operations; and provision of goods required for the purpose.

5. **Strengthening Environmental and Social Management of Mining**

Development of a comprehensive environmental and social management framework for the Recipient’s mining sector, and expansion of capacity within the MNREE for environmental and social management of mining activities; and provision of goods required for the purpose.

**PART B: Generating and Managing Mineral Resources**

1. **Reforming the Mineral Royalty and Tax Regime**

Implementation of a program of activities aimed at reviewing the existing fiscal legislation for the mining sector, and thereafter, developing the new fiscal legislation for the sector.

2. **Maximizing Mineral Revenue Collection**

Expansion of capacity in royalty and tax administration within the relevant agencies of the Recipient; and provision of goods required for the purpose.

3. **Building Mineral Revenue Transparency**

Identification, evaluation and design of measures to strengthen mineral revenue transparency.

4. **Developing Mineral Revenue Forecasting**

Implementation of a program of activities aimed at improving the capacity of the relevant agencies of the Recipient for effective forecasting of mineral revenue.

5. **Developing Mineral Revenue Management Policies**

Identification and evaluation of policy options for mineral revenue management.

**PART C: Promoting the Mineral Sector**

1. **Program of Geo-data Acquisition, Interpretation and Promotion**

Acquisition, interpretation and promotion of geo-data to support mineral sector development through the provision of goods and works required for the purpose.
2. Establishing a Geo-Data Management Center

Establishment of a rational digital geo-data management center as the sole dissemination source of all of Malawi’s geo-data; and provision of goods required for the purpose.

3. Program of Training and Awareness Raising for Artisanal Mining

Implementation of a program of activities aimed at mainstreaming good practices in artisanal mining and improving the capacity of the MNREE for promotion of sustainable artisanal mining; and provision of goods required for the purpose.

4. Tertiary Education in Minerals

Strengthening of the Recipient’s university programs providing professional expertise in mining related disciplines through the development of degree-level and other tertiary level courses at the University of Malawi, including the development of technician skills programs leading to certification in mine safety, drilling/blasting and core drilling; and provision of goods required for the purpose.

5. PPP Framework for Mining-related Infrastructure

Development of expertise within the MNREE to implement a public-private partnership framework for investments in mining-related infrastructure.

PART D: Project Management

Project coordination, management, and monitoring, and carrying out of financial audits and periodic evaluations and provision of goods required for the purpose.

2.02. Project Execution Generally. The Recipient declares its commitment to the objectives of the Project. To this end, the Recipient shall carry out the Project through MNREE in accordance with the provisions of: (a) Article II of the Standard Conditions; (b) the “Guidelines on Preventing and Combating Fraud and Corruption in Projects Financed by IBRD Loans and IDA Credits and Grants”, dated October 15, 2006 and revised in January 2011 (“Anti-Corruption Guidelines”); and (c) this Article II.

2.03. Implementation Arrangements

A. Institutional Arrangements.

1. Project Steering Committee

(a) The Recipient shall maintain, at all times during the implementation of the Project, a committee with a mandate, composition and resources satisfactory to the World Bank (“Project Steering Committee”).
2. Project Management Team

(a) The Recipient shall maintain at all times during Project implementation, a Project management team, with composition, mandate and resources satisfactory to the World Bank ("Project Management Team").

(b) Without limitation upon the provisions of Paragraph (a) of Section 2.03 A. 2 of this Annex, the Project Management Team shall at all times: (i) be comprised of qualified and experienced personnel in adequate numbers, including, *inter alia*, a Project coordinator, a deputy project coordinator, a procurement officer, an accountant, an accounts officer, a monitoring and evaluation officer and an environmental and social safeguards officer, all with qualifications, experience, and terms of reference acceptable to the World Bank; (ii) be responsible for day-to-day Project coordination and implementation, including: (A) preparing proposed annual work plans of activities for inclusion in the Project, and updating the procurement plan and related budgets and consolidating Project reports for the Project Steering Committee's review; (B) carrying out Project financial management and procurement activities; and (C) monitoring and evaluating the Project.

B. Anti-Corruption

The Recipient shall ensure that the Project is carried out in accordance with the provisions of the Anti-Corruption Guidelines.

C. Annual Work Plans

1. The Recipient shall prepare, in accordance with terms of reference acceptable to the World Bank, and furnish to the World Bank not later than May 15 of each calendar year throughout the implementation of the Project, a plan of activities proposed for inclusion in the Project for the period from July 1 of such calendar year to June 30 of the next
calendar year, together with a budget for such activities and a timetable for their implementation.

2. The Recipient shall: (i) afford the World Bank a reasonable opportunity to exchange views with the Recipient on such proposed work plan; and (ii) thereafter carry out such work plan during the period covered by said plan, according to such budget, both as shall have been approved by the World Bank ("Annual Work Plan").

3. Only such activities as shall have been included in the Annual Work Plan shall be eligible for inclusion in the Project and financing out of the proceeds of the Grant.

D. Manual

1. The Recipient shall prepare, in accordance with terms of reference acceptable to the World Bank, a Project implementation manual, containing detailed arrangements and procedures for: (a) institutional coordination and day-to-day execution of the Project; (b) Project budgeting, disbursement and financial management; (c) procurement; (d) monitoring, evaluation, reporting and communication; and (e) such other administrative, financial, technical and organizational arrangements and procedures as shall be required for the Project.

2. The Recipient shall afford the World Bank a reasonable opportunity to review such manual, and shall thereafter adopt such manual as shall have been approved by the World Bank ("Project Implementation Manual").

3. The Recipient shall carry out the Project in accordance with the Project Implementation Manual and shall not amend, abrogate, waive, or permit to be amended, abrogated, or waived, the aforementioned, or any provision of either one thereof, without the prior written consent of the World Bank.

4. In the event of any conflict between the provisions of the Project Implementation Manual and those of this Agreement, the provisions of this Agreement shall prevail.

E. Safeguards

1. (a) For purposes of Part A (5) of the Project, the Recipient shall, not later than 18 months after the Effective Date, carry out a Strategic Environmental and Social Assessment of the Recipient's mining sector under terms of reference satisfactory to the World Bank ("SESA"), and on the basis of said assessment, the Recipient shall: (i) prepare and disclose an action plan that, inter alia, identifies such regulatory instruments, agreed with the World Bank ("Action Plan"), as may be necessary for the environmentally and socially sustainable management of the Recipient's mining sector; and (ii) adopt such Action Plan not later than 6 months after the completion of the SESA.

(b) The Recipient shall ensure that the Project Reports referred to in Section 2.05 of this Annex include adequate information on the status of preparation and implementation of the regulatory instruments referred to in paragraph 1(a) above.
2. The Recipient shall ensure that all terms of reference for any technical assistance, studies, and analytical work under the Project are consistent with the World Bank's environmental and social safeguards.

2.04. **Donor Visibility and Visit.** (a) The Recipient shall take or cause to be taken all such measures as the World Bank may reasonably request to identify publicly the Donor's support for the Project.

(b) For the purposes of Section 2.09 of the Standard Conditions, the Recipient shall, upon the World Bank's request, take all measures required on its part to enable the representatives of the Donor to visit any part of the Recipient's territory for purposes related to the Project.

2.05. **Project Monitoring, Reporting and Evaluation.** (a) The Recipient shall monitor and evaluate the progress of the Project and prepare Project Reports in accordance with the provisions of Section 2.06 of the Standard Conditions and on the basis of indicators acceptable to the World Bank. Each Project Report shall cover the period of one calendar quarter, and shall be furnished to the World Bank not later than forty-five (45) days after the end of the period covered by such report.

(b) The Recipient shall prepare the Completion Report in accordance with the provisions of Section 2.06 of the Standard Conditions. The Completion Report shall be furnished to the World Bank not later than six months after the Closing Date. In order to assist the Recipient in preparing the Completion Report, the Recipient shall employ consultants in accordance with the provisions of Section 2.07 of this Agreement.

2.06. **Financial Management.** (a) The Recipient shall ensure that a financial management system is maintained in accordance with the provisions of Section 2.07 of the Standard Conditions.

(b) The Recipient shall ensure that interim unaudited financial reports for the Project are prepared and furnished to the World Bank not later than forty-five (45) days after the end of each calendar quarter, covering the quarter, in form and substance satisfactory to the World Bank.

(c) The Recipient shall have its Financial Statements audited in accordance with the provisions of Section 2.07 (b) of the Standard Conditions. Each audit of the Financial Statements shall cover the period of one fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six months after the end of such period.

2.07. **Procurement**

(a) **General.** All goods and works required for the Project and to be financed out of the proceeds of the Grant shall be procured in accordance with the requirements set forth or referred to in:

(i) Section I of the “Guidelines: Procurement of Goods, Works and Non-consulting Services under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 ("Procurement Guidelines"), in the case of goods and works;
(5) unquantifiable criteria, such as local content, technology transfer, and managerial, scientific, and operational skills development, shall not be used in the evaluation of bids; and;

(6) contracts may not be split into small lots, and their award may not be restricted to small enterprises for purposes of promotion of the participation of small enterprises.

(d) Particular Methods of Procurement of Consultants’ Services

(i) Except as otherwise provided in item (ii) below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

(ii) The following methods, other than Quality- and Cost-based Selection, may be used for the procurement of consultants’ services for those assignments which are specified in the Procurement Plan: (A) Quality-based Selection; (B) Selection under a Fixed Budget; (C) Least Cost Selection; (D) Selection based on Consultants’ Qualifications; (E) Single-source Selection of consulting firms; (F) Selection of Individual Consultants; and (G) Single-source procedures for the Selection of Individual Consultants.

(e) Review by the World Bank of Procurement Decisions. The Procurement Plan shall set forth those contracts which shall be subject to the World Bank’s Prior Review. All other contracts shall be subject to Post Review by the World Bank.

Article III
Withdrawal of Grant Proceeds

§ 01. Eligible Expenditures. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) the Standard Conditions; (b) this Section; and (c) such additional instructions as the World Bank may specify by notice to the Recipient (including the “World Bank Disbursement Guidelines for Projects” dated May 2006, as revised from time to time by the World Bank and as made applicable to this Agreement pursuant to such instructions), to finance Eligible Expenditures as set forth in the following table. The table specifies the categories of Eligible Expenditures that may be financed out of the proceeds of the Grant (“Category”), the allocations of the amounts of the Grant to each Category, and the percentage of expenditures to be financed for Eligible Expenditures in each Category:
(ii) Sections I and IV of the “Guidelines: Selection and Employment of Consultants under IBRD Loans and IDA Credits and Grants by World Bank Borrowers” dated January 2011 (“Consultant Guidelines”) in the case of consultants’ services; and

(iii) the provisions of this Section, as the same shall be elaborated in the procurement plan prepared and updated from time to time by the Recipient for the Project in accordance with paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines (“Procurement Plan”).

(b) **Definitions.** The capitalized terms used in the following paragraphs of this Section to describe particular procurement methods or methods of review by the World Bank of particular contracts, refer to the corresponding method described in Sections II and III of the Procurement Guidelines, or Sections I, III, IV and V of the Consultant Guidelines, as the case may be.

(c) **Particular Methods of Procurement of Goods and Works**

(i) Except as otherwise provided in sub-paragraph (ii) below, goods and works shall be procured under contracts awarded on the basis of International Competitive Bidding.

(ii) The following methods, other than International Competitive Bidding, may be used for procurement of goods and works for those contracts which are specified in the Procurement Plan: (A) Limited International Bidding; (B) Shopping; (C) Direct Contracting; and (D) National Competitive Bidding, subject to the following additional provisions:

1. no bidder or potential bidder shall be declared ineligible to bid for reasons other than those provided in Section I of the Procurement Guidelines;

2. bidding documents acceptable to the World Bank shall be used;

3. the bidding documents and contract shall include provisions reflecting the Bank’s policy relating to firms or individuals found to have engaged in fraud and corruption as defined in the Procurement Guidelines;

4. each bidding document and contract shall provide that bidders, suppliers and contractors, and their subcontractors, agents, personnel, consultants, service providers, or suppliers, shall permit the World Bank to inspect all accounts, records, and other documents relating to the submission of bids and contract performance, and to have them audited by auditors appointed by the World Bank. Acts intended to materially impede the exercise of the World Bank’s inspection and audit rights provided for in the Procurement Guidelines constitute an obstructive practice as defined in the Procurement Guidelines;
<table>
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<tr>
<th>Category</th>
<th>Amount of the Financing Allocated (expressed in Euros)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
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<tr>
<td>(1) Goods, works, consultants’ services and Training for Part A</td>
<td>501,463</td>
<td>20%</td>
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<tr>
<td>(2) Goods, works, consultants’ services and Training for Part C</td>
<td>1,234,136</td>
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<td>(3) Goods, works, consultants’ services, Training and Operating costs for Part D</td>
<td>197,462</td>
<td>19%</td>
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<td><strong>TOTAL AMOUNT</strong></td>
<td><strong>1,933,061</strong></td>
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3.02. **Withdrawal Conditions.** Notwithstanding the provisions of Section 3.01 of this Agreement, no withdrawal shall be made for payments made prior to the date of countersignature of this Agreement by the Recipient.

3.03. **Withdrawal Period.** The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is November 17, 2015.

### Article IV

**Additional Remedies**

4.01. **Additional Events of Suspension.** The Additional Event of Suspension referred to in Section 4.02 (k) of the Standard Conditions consists of the following:

1. At any time before the Disbursement Deadline Date, the Recipient has failed, in the opinion of the World Bank, to apply standards or implement measures consistent with international good practice to ensure the environmentally and socially sustainable management of all mining operations in its jurisdiction that have commenced or are materially revised subsequent to the date of this Agreement.

2. The mining policy adopted under Section 5.01(b) of this Agreement has been amended, suspended, abrogated, repealed or waived, so as to affect, in the opinion of the World Bank, materially and adversely the objective of this Project.

3. The World Bank has determined after the Effective Date referred to in Section 5.03 of this Agreement that prior to such date but after the date of this Agreement, an event has occurred which would have entitled the World Bank to suspend the Recipient's right to make withdrawals from the Grant Account if this Agreement had been effective on the date such event occurred.
Article V
Effectiveness; Termination

5.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the conditions specified below have been satisfied.

(a) The Financing Agreement has been executed and delivered and all conditions precedent to its effectiveness or to the right of the Recipient to make withdrawals under it (other than the effectiveness of this Agreement) have been fulfilled.

(b) The Recipient has adopted a mining policy in form and substance satisfactory to the World Bank.

5.02. Except as the Recipient and the World Bank shall otherwise agree, this Agreement shall enter into effect on the date upon which the World Bank dispatches to the Recipient notice of its acceptance of the evidence required pursuant to Section 5.01 of this Agreement (“Effective Date”). If, before the Effective Date, any event has occurred which would have entitled the World Bank to suspend the right of the Recipient to make withdrawals from the Grant Account if this Agreement had been effective, the World Bank may postpone the dispatch of the notice referred to in this Section until such event (or events) has (or have) ceased to exist.

5.02 Termination for Failure to Become Effective. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date 90 days after the date of this Agreement, unless the World Bank, after consideration of the reasons for the delay, establishes a later date for the purpose of this Section. The World Bank shall promptly notify the Recipient of such later date.

Article VI
Recipient’s Representative; Addresses

6.01. Recipient’s Representative. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its minister at the time responsible for finance.

6.02. Recipient’s Address. The Recipient’s Address referred to in Section 7.01 of the Standard Conditions is:

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

Facsimile:
265-1-78-91-73
5.03. *World Bank’s Address.* The World Bank’s Address referred to in Section 7.01 of the Standard Conditions is:

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

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<tr>
<th>Cable:</th>
<th>Telex:</th>
<th>Facsimile:</th>
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<tr>
<td>INDEVAS</td>
<td>248423 (MCI) or</td>
<td>1-202-477-6391</td>
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<tr>
<td>Washington, D.C.</td>
<td>641-5 (MCI)</td>
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