Financing Agreement
(Agricultural Support and Fiscal Management Development Policy Financing)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

Dated June 19, 2013
FINANCING AGREEMENT

AGREEMENT dated June 19, 2014 entered into between REPUBLIC OF MALAWI ("Recipient") and INTERNATIONAL DEVELOPMENT ASSOCIATION ("Association") for the purpose of providing financing in support of the Program (as defined in the Appendix to this Agreement). The Association has decided to provide this financing on the basis, inter alia, of: (i) the actions which the Recipient has already taken under the Program and which are described in Section I.A of Schedule 1 to this Agreement; and (ii) the Recipient’s maintenance of an adequate macroeconomic policy framework.

The Recipient and the Association therefore hereby agree as follows:

ARTICLE I — GENERAL CONDITIONS; DEFINITIONS

1.01. The General Conditions (as defined in the Appendix to this Agreement) constitute an integral part of this Agreement.

1.02. Unless the context requires otherwise, the capitalized terms used in this Agreement have the meanings ascribed to them in the General Conditions or in the Appendix to this Agreement.

ARTICLE II — FINANCING

2.01. The Association agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a credit in an amount equivalent to fifty-eight million nine hundred thousand Special Drawing Rights (SDR 58,900,000) (variously, "Credit" and "Financing").

2.02. The Recipient may withdraw the proceeds of the Financing in support of the Program in accordance with Section II of Schedule 1 to this Agreement.

2.03. The Maximum Commitment Charge Rate payable by the Recipient on the Unwithdrawn Financing Balance shall be one-half of one percent (1/2 of 1%) per annum.

2.04. The Service Charge payable by the Recipient on the Withdrawn Credit Balance shall be equal to three-fourths of one percent (3/4 of 1%) per annum.

2.05. The Payment Dates are February 15 and August 15 in each year.

2.06. The principal amount of the Credit shall be repaid in accordance with the repayment schedule set forth in Schedule 2 to this Agreement.
2.07. The Payment Currency is Dollar.

2.08. Without limitation upon the provisions of Section 4.08 of the General Conditions (renumbered as such pursuant to paragraph 3 of Section II of the Appendix to this Agreement and relating to Cooperation and Consultation), the Recipient shall promptly furnish to the Association such information relating to the provisions of this Article II as the Association may, from time to time, reasonably request.

ARTICLE III — PROGRAM

3.01. The Recipient declares its commitment to the Program and its implementation. To this end, and further to Section 4.08 of the General Conditions:

(a) the Recipient and the Association shall from time to time, at the request of either party, exchange views on the Recipient’s macroeconomic policy framework and the progress achieved in carrying out the Program;

(b) prior to each such exchange of views, the Recipient shall furnish to the Association for its review and comment a report on the progress achieved in carrying out the Program, in such detail as the Association shall reasonably request; and

(c) without limitation upon the provisions of paragraphs (a) and (b) of this Section, the Recipient shall promptly inform the Association of any situation that would have the effect of materially reversing the objectives of the Program or any action taken under the Program including any action specified in Section I of Schedule 1 to this Agreement.

ARTICLE IV — REMEDIES OF THE ASSOCIATION

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

ARTICLE V — EFFECTIVENESS; TERMINATION

5.01. The Additional Condition of Effectiveness consists of the following, namely, that the Association is satisfied with the progress achieved by the Recipient in carrying out the Program and with the adequacy of the Recipient’s macroeconomic policy framework.

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

5.03. For purposes of Section 8.05 (b) of the General Conditions, the date on which the obligations of the Recipient under this Agreement (other than those providing for
payment obligations) shall terminate is twenty (20) years after the date of this Agreement.

ARTICLE VI — REPRESENTATIVE; ADDRESSES

6.01. The Recipient’s Representative is its minister responsible for finance.

6.02. The Recipient’s Address is:

Ministry of Finance, Economic Planning and Development
P.O. Box 30049
Capital City
Lilongwe 3
Malawi

Cable address: FINANCE
Facsimile: 265-1-789173
Lilongwe

6.03. The Association’s Address is:

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

Telex: 248423(MCI)
Facsimile: 1-202-477-6391
AGREED at Lilongwe, Malawi, as of the day and year first above written.

REPUBLIC OF MALAWI

By

[Signature]
Authorized Representative

Name: Hon. Goodall E. Gondwe
Title: Minister of Finance, Economic Planning and Development

INTERNATIONAL DEVELOPMENT ASSOCIATION

By

[Signature]
Authorized Representative

Name: Laura Kullenberg
Title: Country Manager
SCHEDULE 1

Program Actions; Availability of Financing Proceeds

Section I. Actions under the Program

A. Actions Taken Under the Program

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

I. Making Agricultural Markets Work Better

1. The Recipient has, through its Ministry of Agriculture, Irrigation and Water Development ("MoAIWD") and its Ministry of Finance, Economic Planning and Development ("MoFEPD"), made parametric changes to the Farm Input Subsidy Program ("FISP") in Fiscal Year 2016/7, namely: (a) increased the share of fertilizer retailed by private suppliers; (b) reduced the level of subsidy to Beneficiaries by introducing a fixed value coupon with Beneficiaries paying the difference between the coupon value and market price; and (c) piloted improved targeting of Beneficiaries, all in accordance with the provisions of paragraphs 18 and 19 of the Letter of Development Policy.

2. The Recipient has, through its MoAIWD, adopted revised guidelines that put in place transparent and objective criteria, as well as technical and financial reporting and accountability mechanisms for maize draw down for price stabilization from the Strategic Grain Reserve, all in accordance with the provisions of paragraph 22 of the Letter of Development Policy.

3. The Recipient has, through ADMARC Limited: (a) published ADMARC Limited’s Audited Financial Statements for Fiscal Years 2013/4 and 2014/5, respectively; and (b) published monthly reports outlining maize market distribution and purchasing plans throughout the Fiscal Year 2016/7 lean season, all in accordance with the provisions of paragraph 23 of the Letter of Development Policy.

4. The Recipient has enacted the: (a) Physical Planning Act, 2016; (b) Customary Land Act, 2016; (c) Land Survey Act, 2016; and (d) Land Act, 2016, improving administration and security of tenure, all in accordance with the provisions of paragraph 24 of the Letter of Development Policy.

5. The Recipient has, through its MoFEPD, MoGCDSW and LDF, agreed on institutional coordination arrangements for the expansion of the Social Cash Transfer Program, all in accordance with the provisions of paragraph 20 of the Letter of Development Policy.
II. Strengthening Expenditure Management and Accountability in Public Finances

6. The Recipient has, through its MoFEPD, National Audit Office and DHRMD, completed an audit of its civil service payroll system, reconciled the differences between establishment and payroll for both salaries and allowances, and deleted erroneous entries, all in accordance with the provisions of paragraph 28 of the Letter of Development Policy.

7. The Recipient has, through its National Audit Office, published the audited financial statements for Fiscal Years 2011/2, 2012/3, 2013/4 and 2014/5, all in accordance with the provisions of paragraph 27 of the Letter of Development Policy.

8. The Recipient has, through its MoFEPD, submitted to Parliament the Public Audit (Amendment) Bill 2016 with a view to strengthening the operational independence of the National Audit Office, in conformity with INTOSAI standards, all in accordance with the provisions of paragraph 29 of the Letter of Development Policy.

9. The Recipient has: (a) through its Office of the President, appointed Controlling Officers for all ministries, departments and agencies in conformity with the Public Service Management Act (Chapter 103 of the laws of Malawi) to perform their functions in conformity with the provisions of the Public Financial Management Act; and (b) through said Controlling Officers, submitted required Monthly Returns for their respective Votes for calendar year 2016, in conformity with the provisions of Section 10 of the PFM Act, all in accordance with the provisions of paragraph 26 of the Letter of Development Policy.

Section II. Availability of Financing Proceeds

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

B. Allocation of Financing Amounts. The Financing is allocated in a single withdrawal tranche, from which the Recipient may make withdrawals of the Financing. The allocation of the amounts of the Financing to this end is set out in the table below:

<table>
<thead>
<tr>
<th>Allocations</th>
<th>Amount of the Financing Allocated (expressed in SDR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Single Withdrawal Tranche</td>
<td>58,900,000</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>58,900,000</td>
</tr>
</tbody>
</table>
C. **Withdrawal Tranche Release Conditions.** No withdrawal shall be made of the Single Withdrawal Tranche unless the Association is satisfied: (a) with the Program being carried out by the Recipient; and (b) with the adequacy of the Recipient’s macroeconomic policy framework.

D. **Deposits of Financing Amounts.** Except as the Association may otherwise agree:

1. the withdrawal from the Financing Account shall be deposited by the Association into an Account designated by the Recipient and acceptable to the Association; and

2. the Recipient shall ensure that upon the deposit of the amount of the Financing into this Account, an equivalent amount is accounted for in the Recipient’s budget management system, in a manner acceptable to the Association.

E. **Audit.** The Recipient shall:

1. have the Account and the recording of amounts of the Financing into the Recipient’s budget management system referred to in Part D of this Section audited by independent auditors acceptable to the Association, in accordance with consistently applied auditing standards acceptable to the Association;

2. furnish to the Association as soon as available, but in any case not later than seven months after the end of the Recipient’s Fiscal Year, a certified copy of the report of such audit, of such scope and in such detail as the Association shall reasonably request, and make such report publicly available in a timely fashion and in a manner acceptable to the Association; and

3. furnish to the Association such other information concerning the Account and the recording of amounts of the Financing into the Recipient’s budget management system referred to in Part D of this Section and their audit as the Association shall reasonably request.

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

G. **Closing Date.** The Closing Date is March 31, 2018.
SCHEDULE 2

Repayment Schedule

<table>
<thead>
<tr>
<th>Date Payment Due</th>
<th>Principal Amount of the Credit repayable (expressed as a percentage)*</th>
</tr>
</thead>
<tbody>
<tr>
<td>On each February 15 and August 15, commencing August 15, 2023 to and including February 15, 2055</td>
<td>1.5625%</td>
</tr>
</tbody>
</table>

* The percentages represent the percentage of the principal amount of the Credit to be repaid, except as the Association may otherwise specify pursuant to Section 3.03 (b) of the General Conditions.
APENDIX

Section I. Definitions

1. "Account" means the Recipient's Consolidated Fund established and operating pursuant to Section 172 of the Constitution of the Recipient, 1994, as amended from time to time.

2. "ADMARC Limited" means the Agricultural Development and Marketing Corporation incorporated as a limited company on the November 19, 2003 pursuant to the Companies Act, Cap.46:03 of the laws of the Recipient.


4. "Appropriation Act" means an act passed by the National Assembly in accordance with the provisions Section 176 of the Constitution of the Recipient, 1994, as amended from time to time.

5. "Audited Financial Statement" means the Auditor General’s report on the results of the audit of the Account of the Recipient as submitted and approved by the National Assembly, all in accordance with the provisions of Section 184 (2) of the Constitution of the Recipient 1994, as amended from time to time, and the Public Audit Act, Cap.37:01 of the laws of the Recipient, and "Audited Financial Statements" means, collectively, two or more such reports.

6. "Auditor General" means the office of the Auditor General established and operating pursuant to Section 184 (3) of the Constitution of the Recipient, 1994, as amended from time to time.

7. "Beneficiaries" means eligible poor farmers and households to whom the Recipient proposes to provide FISP coupons.

8. "Controlling Officer" means any person appointed by the President as the head or principal person in-charge of a ministry or department; and charged with a duty to, or who actually does collect, receive, disburse or deal in any way with any public money, or a person who is charged with the purchase, receipt, custody, or disposal of, or the accounting for, any public resources or public securities, within the meaning of the Public Finance Management Act, Cap.37:02 of the laws of the
Recipient, and “Controlling Officers” means, collectively, two or more such persons.


10. “DHRMD” means the Recipient’s Department of Human Resources Management and Development responsible for the administration and management of the public service within the meaning of Section 19 of the Public Service Management Act, Cap.1:03 of the laws of the Recipient.

11. “Excluded Expenditure” means any expenditure:

(a) for goods or services supplied under a contract which any national or international financing institution or agency other than the Association or the Bank has financed or agreed to finance, or which the Association or the Bank has financed or agreed to finance under another credit, grant or loan;

(b) for goods included in the following groups or sub-groups of the Standard International Trade Classification, Revision 3 (SITC, Rev.3), published by the United Nations in Statistical Papers, Series M, No. 34/Rev.3 (1986) (the SITC), or any successor groups or subgroups under future revisions to the SITC, as designated by the Association by notice to the Recipient:

<table>
<thead>
<tr>
<th>Group</th>
<th>Sub-group</th>
<th>Description of Item</th>
</tr>
</thead>
<tbody>
<tr>
<td>112</td>
<td></td>
<td>Alcoholic beverages</td>
</tr>
<tr>
<td>121</td>
<td></td>
<td>Tobacco, un-manufactured, tobacco refuse</td>
</tr>
<tr>
<td>122</td>
<td></td>
<td>Tobacco, manufactured (whether or not containing tobacco substitutes)</td>
</tr>
<tr>
<td>525</td>
<td></td>
<td>Radioactive and associated materials</td>
</tr>
<tr>
<td>667</td>
<td></td>
<td>Pearls, precious and semiprecious stones, unworked or worked</td>
</tr>
<tr>
<td>718</td>
<td>718.7</td>
<td>Nuclear reactors, and parts thereof; fuel elements (cartridges), non-irradiated, for nuclear reactors</td>
</tr>
<tr>
<td>728</td>
<td>728.43</td>
<td>Tobacco processing machinery</td>
</tr>
<tr>
<td>897</td>
<td>897.3</td>
<td>Jewelry of gold, silver or platinum group metals (except watches and watch cases) and goldsmiths’ or silversmiths’ wares (including set gems)</td>
</tr>
<tr>
<td>-----</td>
<td>-------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>971</td>
<td></td>
<td>Gold, non-monetary (excluding gold ores and concentrates)</td>
</tr>
</tbody>
</table>

(c) for goods intended for a military or paramilitary purpose or for luxury consumption;

(d) for environmentally hazardous goods, the manufacture, use or import of which is prohibited under the laws of the Recipient or international agreements to which the Recipient is a party;

(e) on account of any payment prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations; and

(f) with respect to which the Association determines that corrupt, fraudulent, collusive or coercive practices were engaged in by representatives of the Recipient or other recipient of the Financing proceeds, without the Recipient (or other such recipient) having taken timely and appropriate action satisfactory to the Association to address such practices when they occur.

12. “Farm Input Subsidy Program” or “FISP” means the agriculture productivity enhancement programme supporting smallholder farmers in the Recipient’s territory with subsidized farm inputs.

13. “Fiscal Year” means the Recipient’s fiscal year commencing July 1 and ending June 30 of the following year.

14. “General Conditions” means the “International Development Association General Conditions for Credits and Grants”, dated July 31, 2010 with the modifications set forth in Section II of this Appendix.

15. “INTOSAI” means the International Organization of Supreme Audit Institutions.


18. "LDF" means the Local Development Fund established within the MoFEPD as the Recipient’s funding mechanism for local development, and any successor thereto.

19. "Ministry of Agriculture, Irrigation and Water Development" and "MoAIWD" means the Recipient’s ministry responsible for agriculture, irrigation and water development, and any successor thereto.

20. "MoFEPD" means the Recipient’s ministry responsible for finance, and any successor thereto.


22. "National Assembly" means the institution established and operating pursuant to Section 62 of the Constitution of the Recipient, 1994, as amended.

23. "National Audit Office" means that part of the office of the Auditor General charged with the responsibility of audit under the Public Audit Act, Cap.37:01 of the laws of the Recipient, and any successor thereto.

24. "Office of the President" means the office established and operating pursuant to Section 78 of the Constitution of the Recipient, 1994, as amended.


28. "Program" means the program of actions, objectives and policies designed to promote growth and achieve sustainable reductions in poverty and set forth or referred to in the letter dated February 27, 2017, from the Recipient to the Association declaring the Recipient’s commitment to the execution of the Program, and requesting assistance from the Association in support of the Program during its execution.


30. "Single Withdrawal Tranche" means the amount of the Financing allocated to the category entitled "Single Withdrawal Tranche" in the table set forth in Part B of Section II of Schedule 1 to this Agreement.
31. “SGR” means the Recipient’s Strategic Grain Reserve which is the level of extra grain stock that is maintained to mitigate risk of shortfall due to uncertainties in supply and demand of grain and which is managed by the National Food Reserve Agency a trust established in 1999 and incorporated under the Trustees Incorporation Act, Cap.5:03 of the laws of the Recipient, to assume responsibility for the management of the SGR.

32. “Social Cash Transfer Program” means the Recipient’s program that provides direct payments of cash to households identified as ultra-poor and labor constrained.

33. “Supplementary Appropriation Act” means an act passed in accordance with Section 177 of the Constitution of the Recipient, 1994, as amended.

34. “Vote” means an entity for which an appropriation is made by an Appropriation Act or Supplementary Appropriation Act.

Section II. Modifications to the General Conditions

The General Conditions are hereby modified as follows:

1. The last sentence of paragraph (a) of Section 2.03 (relating to Applications for Withdrawal) is deleted in its entirety.

2. Sections 2.04 (Designated Accounts) and 2.05 (Eligible Expenditures) are deleted in their entirety, and the subsequent Sections in Article II are renumbered accordingly.

3. Sections 4.01 (Project Execution Generally) and 4.09 (Financial Management; Financial Statements; Audits) are deleted in their entirety, and the remaining Sections in Article IV are renumbered accordingly.

4. Paragraph (a) of Section 4.05 (renumbered as such pursuant to paragraph 3 above and relating to Use of Goods, Works and Services) is deleted in its entirety.

5. Paragraph (c) of Section 4.06 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

“Section 4.06. Plans; Documents; Records

... (c) The Recipient shall retain all records (contracts, orders, invoices, bills, receipts and other documents) evidencing expenditures under the Financing until two years after the Closing Date. The Recipient shall enable the Association’s representatives to examine such records.”
6. Paragraph (c) of Section 4.07 (renumbered as such pursuant to paragraph 3 above) is modified to read as follows:

"Section 4.07. Program Monitoring and Evaluation

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

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

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

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

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

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

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