September 11, 2014

His Excellency Urs Herren
Ambassador
Embassy of Switzerland in Nepal
P. O. Box 113
Ekantakuna, Kathmandu

Trust Fund Administration Agreement between the Government of the
Swiss Confederation and the International Development
Association (“IDA”) concerning the Nepal Public Financial
Management Support Multi-Donor Trust Fund (No. TF071617)

Your Excellency:

1. We are pleased to acknowledge on behalf of the International Development
Association (“IDA” or the “World Bank”) that the Government of the Swiss
Confederation, acting through the State Secretariat for Economic Affairs (“SECO”) (the
“Donor”) shall make available as a grant the sum of three million Swiss
Francs (CHF 3,000,000) (the “Contribution”) for the Nepal Public Financial Management
Support Multi-Donor Trust Fund (the “Trust Fund”) in accordance with the terms of this
Agreement. Other donors have already contributed to the Trust Fund on the terms and
conditions specified in the Annexes to this Agreement, and more donors are expected to
contribute to the Trust Fund.

2. The Contribution shall be used to finance the activities and the categories of
expenditure set forth in the “Description of Activities and Expenditures under the Nepal
Public Financial Management Support Multi-Donor Trust Fund” attached hereto as
Annex 1, and shall be administered by the World Bank on behalf of the Donor in
accordance with the terms of this Agreement including the “Standard Provisions
Applicable to the Nepal Public Financial Management Support Multi-Donor Trust Fund”

3. (a) The Donor shall deposit the Contribution into such bank account
designated by the World Bank promptly following effectiveness of this Agreement as set
forth in paragraph 7 of this Agreement and submission of a payment request by the
World Bank in installments in accordance with the following schedule:

   (i) following effectiveness of this Agreement as set forth in
   paragraph 7 of this Agreement and submission of a payment
   request by the World Bank: CHF 1,000,000;
on or before February 28, 2016, upon submission of a payment request by the World Bank and of the Trust Fund-related reports for the previous year in accordance with this Agreement: CHF 1,000,000; and

(ii) on or before February 28, 2017, upon submission of a payment request by the World Bank and of the Trust Fund-related reports for the previous year in accordance with this Agreement: CHF 1,000,000.

(b) Following the deposit of the first installment, each deposit is subject to the approval of the budget of the Swiss Confederation by the Swiss Parliament for the fiscal year in which such deposit is to be made. The installment schedule may be amended as agreed between the World Bank and the Donor.

4. When making such deposit, the Donor shall instruct its bank to include in the payment details information field of its SWIFT payment message (remittance advice), information indicating: the amount paid, that the payment is made by the Donor for TF071617 (the Nepal Public Financial Management Support Multi-Donor Trust Fund), and the date of the deposit (the “Deposit Instruction”). In addition, the Donor shall provide a copy of the Donor's Deposit Instruction to the World Bank's Accounting Trust Funds Division by e-mail sent to tfremitadvice@worldbank.org or by fax sent to (202) 614-1315.

5. Except as provided for in paragraph 4 above, any notice, request or other communication to be given or made under this Agreement shall be in writing and delivered by mail, facsimile or e-mail to the respective party's address specified below or at such other address as each party notifies in writing to the other party from time to time:

For the World Bank:

Fily Sissoko
Practice Manager
Governance GP (GGODR)
The World Bank
1818 H Street, NW
Washington, DC 20433
U.S.A.

Tel: 202-473 5045
Fax: 202-477 6050
E-mail: fsissoko@worldbank.org
For the Donor:

Monica Rubiolo  
Head of Macroeconomic Support Division  
State Secretariat of Economic Affairs  
Holzikofenweg 36, CH-3003 Bern

Tel: +41 58 424 07 58  
Fax: +41 31 324 09 62  
E-mail: monica.rubiolo@seco.admin.ch

6. All annexes hereto constitute an integral part of this Agreement. This Agreement may be amended only in writing between the World Bank and the Donor; provided, however, that the annexes may be amended only with the agreement of all donors contributing to the Trust Fund.

7. Please confirm your agreement with the foregoing, on behalf of the Donor, by signing, dating, and returning to us the enclosed copy of this Agreement. Upon receipt by the World Bank of the copy of this Agreement countersigned by you, this Agreement will become effective as of the date of the last countersignature of the amendments to the Administration Agreements with the other donors contributing to the Trust Fund extending the end disbursement date of the Trust Fund from January 31, 2016 to January 31, 2018.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

Johannes Zutt  
Country Director for Nepal  
South Asia Region

AGREED:

GOVERNMENT OF THE SWISS CONFEDERATION,  
acting through the STATE SECRETARIAT FOR ECONOMIC AFFAIRS

By:  
Name: Urs Herrn  
Title: Ambassador of Switzerland to Nepal

Date: 12 September 2014
Description of Activities and Expenditures under the Nepal Public Financial Management Support Multi-Donor Trust Fund

1. This Annex shall be applicable to and form an integral part of all agreements entered into between the World Bank and entities (collectively, the “Donors”) that provide contributions (the aggregate of all contributions from the Donors, the “Contributions”) to be administered by the World Bank for the Trust Fund.

2. Objective and Expected Outcome of the Trust Fund Program

(a) The overall program development objective of the Trust Fund is to strengthen the performance, transparency and accountability of public financial management (PFM) in Nepal.

(b) The Trust Fund is designed to support the following activities and other activities which may be identified and agreed between the World Bank and the Donors that meet the development objective of the program:

(i) **Strengthening Public Financial Management Systems and Capacities:** Formulation and implementation of various reform strategies and actions that will strengthen the efficiency and effectiveness of PFM systems in Nepal. Activities may address cross-cutting issues related to PFM comprehensiveness and transparency (including policy-based budgeting, predictability and control in budget execution, accounting, recording and reporting, external scrutiny and audit). These activities are expected to be carried out by the Recipient, and some analytical and advisory activities will be carried out by the World Bank.

(ii) **Enhancing Accountability in Public Financial Management:** Support for activities that seek to increase executive branch accountability for public expenditure management by strengthening demand-side engagement on the part of civil society actors and public institutions of accountability. Activities may include: expansion of social accountability interventions by Civil Society Organizations (CSOs) to improve PFM; capacity development of public accountability institutions; and related analytic tasks. These activities are expected to be a combination of Recipient executed activities and World Bank executed activities.

(iii) **Deepening Knowledge related to Public Expenditures and Financial Accountability (PEFA):** Support for policy and technical studies, assessments, independent evaluations and other knowledge-management activities that aim to improve understanding of public financial management performance and the environment within which such systems operate, to help measure value for money of publicly funded programs,
and to define and inform future public financial management reforms. These activities are expected to be carried out by the World Bank.

(iv) **Trust Fund Program Administration and Management**: Administration and management of the Trust Fund, including mid-term and end-program evaluation of the Trust Fund. These activities will be carried out by the World Bank.

3. **Key expected results of the Trust Fund**

(i) Improved resource management as a result of strengthened public financial management systems and processes;

(ii) Increased awareness and oversight of government public financial management processes by diverse constituencies; and

(iii) Better knowledge of value for money challenges and public financial management governance gaps, contributing to improved design of public financial management interventions at the country and sector level.

4. **Categories of Expenditure**

(i) For Recipient-Executed activities, the Contributions may be used to finance goods, consultants' services, sub-grants, operating costs, media and workshops/training, study tours, travel expenses and contractual services.

(ii) For World Bank-executed activities, the Contributions may be used to finance consultants' fees; media and workshop costs, extended term consultants, staff costs, travel expenses, contractual services, temporary support staff costs, associated overheads and equipment purchase costs.

The equipment purchased under this Trust Fund will be transferred by the World Bank to the eligible Recipients upon the closure of the Trust Fund. Handover notes and all related documentation will be duly prepared and signed at the time of transfer of the equipment.

The foregoing categories of expenditures may include the financing of taxes.
ANNEX 2


This Annex shall be applicable to and form an integral part of all agreements entered into between the World Bank and the Donors that provide Contributions to be administered by the World Bank for the Trust Fund.

1. Administration of the Contributions

1.1. The World Bank shall be responsible only for performing those functions specifically set forth in this Agreement and shall not be subject to any other duties or responsibilities to the Donors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing in this Agreement shall be considered a waiver of any privileges or immunities of the IDA under its Articles of Agreement or any applicable law, all of which are expressly reserved.

1.2. The Contribution shall be administered in accordance with the World Bank’s applicable policies and procedures, as the same may be amended from time to time, including its framework to prevent and combat fraud and corruption and its screening procedures to prevent the use of World Bank resources to finance terrorist activity, in line with the World Bank's obligations to give effect to the relevant decisions of the Security Council, taken under Chapter VII of the of Charter of the United Nations. The Donor acknowledges that this provision does not create any obligations of the World Bank under the anti-terrorist financing and asset control laws, regulations, rules and executive orders of an individual member country that may apply to the Donor, nor shall it be deemed a waiver, express or implied, of any of the privileges and immunities of the World Bank.

2. Governance Structure of the Trust Fund

2.1 The Trust Fund will consist of the following two-tier governance structure:

(a) The World Bank will be the administrator of the Trust Fund. In administering the Trust Fund, the World Bank will be guided by the following underlying principles; harmonization, policy dialogue, flexibility, coordination and participation. In this capacity, the World Bank will establish and maintain appropriate records and accounts to identify the donor contributions to the Trust Fund, the commitments to be financed out of the Contribution and the receipt and disbursement of the Contribution. The World Bank will also be responsible for ensuring effective communication with the Donors, and look after the day-to-day management of the Trust Fund, including processing of projects/programs, implementation review, supervision, monitoring and reporting.
(b) A Program Coordination Committee ("PCC"), chaired by the World Bank Country Director for Nepal, will be established, comprising one representative of each of the contributing donors and World Bank sector managers for technical advice. The PCC will be responsible for reviewing overall operations and progress of the Trust Fund, including setting the strategic direction for the overall work program, reviewing and selecting project concepts for funding, reviewing and endorsing the proposed annual budget and business plan for the forthcoming fiscal year, reviewing implementation status, and monitoring results of Trust Funded activities. The PCC will meet at least twice a year, with additional ad hoc meetings as and when needed. Decisions will be reached by consensus. Meetings of the PCC may take place by telephone or such other communication facilities as permit all members to participate. Observers may be invited to attend PCC meetings in order to contribute to discussions as and when needed. The PCC will coordinate with the Nepal PFM Steering Committee, chaired by the Finance Secretary of Nepal and formed to drive and coordinate PFM reform initiatives, and also coordinate with the PFM Donors Group, formed to harmonize donor support for the Nepal PFM reform program, including demand-side initiatives and oversight of use of public resources.

3. Commingling, Exchange and Investment of the Contributions

3.1. The Contributions shall be accounted for as a single trust fund and shall be kept separate and apart from the funds of the World Bank. The Contributions may be commingled with other trust fund assets maintained by the World Bank.

3.2. The Contributions may be freely exchanged by the World Bank into other currencies as may facilitate their disbursement.

3.3. The World Bank shall invest and reinvest the Contributions pending their disbursement in accordance with the World Bank's policies and procedures for the investment of trust funds administered by the World Bank. The World Bank shall credit all income from such investment to the Trust Fund to be used for the same purposes as the Contributions.

4. Administrative Cost Recovery

4.1. In order to assist in the defrayment of the costs of administration and other expenses incurred by the World Bank under this Agreement, the World Bank may deduct and retain for its own account an amount equal to two percent (2%) of each Contribution. In addition, costs for program management and supervision up to a maximum of 4% of each Contribution or of the total aggregate Contributions will be charged to the Trust Fund on an actual basis. If the contributions increase beyond what was originally expected at the time of counter-signature of the first administration agreement, and the administrative and program management costs increase as a result, the Donors acknowledge that a new administrative cost recovery arrangement may be renegotiated with the Donors.
5. **Grants to Recipients**

5.1. The World Bank shall, as administrator of the Trust Fund on behalf of the Donors, enter into grant agreements (the “Grant Agreements”) with Nepal (the “Recipients”) and eligible recipients selected in accordance with the governance terms of Annex 1 (the “Recipients”) consistent with the purposes of this Agreement and on the terms and conditions set forth in the Grant Agreements. Grant Agreements may be entered into up to the maximum amount of the Contributions that all Donors have agreed to make available under the Administration Agreements between the World Bank and the Donors. Upon request by a Donor, the World Bank shall furnish a copy of the Grant Agreements to the Donors.

5.2. The World Bank shall be responsible for the supervision of the activities financed under the Grant Agreements. Subject to the consent of the relevant Recipients, representatives of the Donors may be invited by the World Bank to participate in Bank supervision missions related to the Trust Fund.

5.3. The World Bank shall promptly inform the Donors of any significant modification to the terms of any Grant Agreements and of any contractual remedies that are exercised by the World Bank under any Grant Agreements. To the extent practicable, the World Bank shall afford the Donors the opportunity to exchange views before effecting any such modification or exercising any such remedy.

6. **Procurement**

6.1. For Recipient-executed activities, the Grant Agreements shall provide that the Contributions shall be used by the Recipients to finance expenditures for goods and services, as the case may be, in accordance with the World Bank’s Guidelines on “Procurement under IBRD Loans and IDA Credits” and the World Bank’s Guidelines on the “Selection and Employment of Consultants by World Bank Borrowers,” as in effect at the date of entry into the respective Grant Agreements.

6.2. For Bank-executed activities, the employment and supervision of any consultants and the procurement of any goods financed by the Contributions shall be the responsibility of the World Bank and shall be carried out in accordance with its applicable policies and procedures.

7. **Accounting and Financial Reporting**

7.1. The World Bank shall maintain separate records and ledger accounts in respect of the Contributions deposited in the Trust Fund account and disbursements made therefrom.

7.2. The World Bank shall furnish to the Donors current financial information relating to receipts, disbursements and fund balance *in the holding currency* of the Trust Fund with respect to the Contributions via the World Bank’s Trust Funds Donor Center secure
website. Within six (6) months after all commitments and liabilities under the Trust Fund have been satisfied and the Trust Fund has been closed, the final financial information relating to receipts, disbursements and fund balance in the holding currency of the Trust Fund with respect to the Contributions will be made available to the Donors via the World Bank’s Trust Funds Donor Center secure website.

7.3. The World Bank shall provide to the Donors, within six (6) months following the end of each World Bank fiscal year, an annual single audit report, comprising (1) a management assertion together with an attestation from the World Bank’s external auditors concerning the adequacy of internal control over cash-based financial reporting for all cash-based trust funds as a whole; and (2) a combined financial statement for all cash-based trust funds together with the World Bank’s external auditor’s opinion thereon. The cost of the single audit shall be borne by the World Bank.

7.4. If a Donor wishes to request, on an exceptional basis, a financial statement audit by the World Bank’s external auditors of the Trust Fund, the Donor and the World Bank shall first consult as to whether such an external audit is necessary. The World Bank and the Donor shall agree on the appropriate scope and terms of reference of such audit. Following agreement on the scope and terms of reference, the World Bank shall arrange for such external audit. The costs of any such audit, including the internal costs of the World Bank with respect to such audit, shall be paid by the requesting Donor.

7.5. The World Bank shall provide the Donors with copies of all financial statements and auditors’ reports received by the World Bank from the Recipients pursuant to the Grant Agreements.

8. **Progress Reporting**

8.1. The World Bank shall provide the Donors with an annual report on the progress of activities financed by the Contributions. Within six (6) months of the final disbursement date specified in paragraph 9.2, the World Bank shall furnish to the Donors a final report on the activities financed by the Trust Fund.

8.2. Any Donor may review or evaluate activities financed by the Trust Fund. The Donor and the World Bank shall agree on the scope and conduct of such review or evaluation, and the World Bank shall provide all relevant information within the limits of its policies and procedures. All associated costs shall be borne by the Donor. It is understood that any such review or evaluation will not constitute a financial, compliance or other audit of the Trust Fund.

9. **Disbursement; Cancellation; Refund**

9.1. The Contributions may be used to retroactively finance payments for eligible expenditures in accordance with the World Bank’s policies and procedures.
9.2 It is expected that the Contributions will be fully disbursed by the World Bank by January 31, 2018. The World Bank shall only disburse Contributions for the purposes of this Agreement after such date with the written approval of the Donors.

9.3 Any Donor or the World Bank may, upon three (3) months' prior written notice, cancel all or part of the Donor's pro rata share, of any remaining balance of the Contributions that is not committed pursuant to any agreements entered into between the World Bank and any consultants and/or other third parties for the purposes of this Agreement prior to the receipt of such notice, including the Grant Agreements.

9.4. Following the final disbursement date specified in paragraph 9.2, the World Bank shall return any remaining balance of the Contributions to the Donors or to the relevant Donor Balance Account on a pro rata basis based on the Donors' paid Contributions. In the event of a cancellation the World Bank shall promptly return to the relevant Donor or Donors or to the relevant Donor Balance Account the Donor's pro rata share of uncommitted Contributions in accordance with paragraph 9.3.

10. Disclosure

The World Bank will disclose this Agreement and related information on this Trust Fund in accordance with the World Bank Policy on Access to Information. By entering into this Agreement, Donors consent to disclosure of this Agreement and related information on this Trust Fund.