Trust Fund Administration Agreement between the Royal Norwegian Ministry of Foreign Affairs and the International Development Association concerning the Multi-Donor Trust Fund for the Malawi Public Finance and Economic Management Reform Program (TF No. 071796) Donor Reference No. MWI-12/0039 MWI-2617

1. We are pleased to acknowledge on behalf of the International Development Association ("IDA" or the "Bank") that the Royal Norwegian Ministry of Foreign Affairs (the "Donor") shall make available, subject to Parliamentary appropriations, as a grant the sum not exceeding fifteen million Norwegian Kroner (NOK15,000,000) (the "Contribution") for the Multi-Donor Trust Fund for the Malawi Public Finance and Economic Management Reform Program No. TF071796 (the "Trust Fund") in accordance with the terms of this Agreement. Other donors are also expected to contribute to the Trust Fund on the terms and conditions specified in the Annexes to this Agreement.

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 Multi-Donor Trust Fund for the Malawi Public Finance and Economic Management Reform Program" attached hereto as Annex 1, and shall be administered by the Bank on behalf of the Donor in accordance with the terms of this Agreement including the "Standard Provisions Applicable to the Multi-Donor Trust Fund for the Malawi Public Finance and Economic Management Reform Program" (the "Standard Provisions") attached hereto as Annex 2.

3. The Donor shall deposit the Contribution into such bank account designated by the Bank in installments based on the financial needs of the Trust Fund and in accordance with the following schedule:

(a) promptly following countersignature of this Agreement by the Donor and submission of a payment request by the Bank, five million Norwegian Kroner (NOK5,000,000);
(b) by June 2014, four million Norwegian Kroner (NOK4,000,000) upon submission of a payment request from the Bank;
(c) by June, 2015 four million Norwegian Kroner (NOK4,000,000) upon submission of a payment request from the Bank; and
(d) by June 2016, two million Norwegian Kroner (NOK2,000,000) upon submission of a payment request from the Bank.
4. If the speed of the implementation of the activities to be financed by the Trust Fund makes it necessary either to bring payments forward or to delay them, changes in the above schedule will be agreed by the Bank and the Donor.

5. When making such deposit, the Donor shall instruct its bank to include in its payment details information (remittance advice) field of its SWIFT payment message, information indicating: the amount paid, that the payment is made by the Donor for TF 071796 (the Multi-Donor Trust Fund for the Malawi Public Finance and Economic Management Reform Program), 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 Bank’s Accounting Trust Funds Division by e-mail sent to tfremitadvice@worldbank.org or by fax sent to (202) 614-1315.

6. The Bank shall convert the Contribution funds into the holding currency of the Trust Fund, namely United States Dollars, promptly upon receipt of the Contribution funds and the Deposit Instruction containing the information specified in paragraph 5 at the exchange rate obtained by the Bank on the date of the conversion. Where the Contribution proves to be insufficient to complete the activities as a result of an exchange rate fluctuation, neither the Bank nor the Donor shall bear any responsibility for providing any additional financing.

7. 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 such party notifies in writing to the other party from time to time:

For the Bank:

Name: Ms. Patricia Mc Kenzie
Title: Manager, Financial Management
Unit/Department: AFTME
The World Bank
1818 H Street, NW
Washington, DC 20433
U.S.A.

Tel: +1-202-473-4534
Fax:+1-202-522-3329
E-mail: Pmckenzie@worldbank.org

For the Donor:
Head of Development Cooperation
Royal Norwegian Embassy Lilongwe
Awra House, Private Bag B 323
Malawi
8. All annexes hereto constitute an integral part of this Agreement. This Agreement may be amended only in writing between the Bank and the Donor; provided, however, that such annexes may be amended only with the agreement of all donors contributing to the Trust Fund.

9. 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 Bank of the copy of this Agreement countersigned by you, this Agreement will become effective as of the date of the countersignature.

Sincerely,

INTERNATIONAL DEVELOPMENT ASSOCIATION

Kundhavi Kadiresan
Country Director for Malawi, Zambia, Zimbabwe
Africa Region

AGREED:

ROYAL MINISTRY OF FOREIGN AFFAIRS OF THE KINGDOM OF NORWAY

By: Name: Asbjørn Eidhammer
Title:

Date: 03/12/2013
ANNEX 1

Description of Activities and Expenditures under the Multi-Donor Trust Fund for the Malawi Public Finance and Economic Management Reform Program

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

Section 1. Background

In 2002 the Republic of Malawi (Recipient) embarked on a significant public financial and economic management reform program with the overarching objective of achieving macro fiscal discipline, effective allocation of resources, efficient and effective delivery of government programs, transparency of public finances and strengthened financial management accountability. Over the past nine years the government has made significant progress in implementing the reform program. The government has therefore decided to bring together a number of related reform initiatives under a unified Public Financial and Economic Management Reform Program (PFEMRP) in order to enhance efficient and effective public service delivery throughout the country.

The PFEMRP has been developed through a consultative process with all stakeholders. The PFEMRP has been based on several important inputs including the 2010 PFEM Situation Analysis Report, key PFEM diagnostic analyses, strategic plans of various Public Financial and Economic Management (PFEM) institutions and PFEM capacity building reports. It provides a means of focusing on the different aspects of PFEM and also provides a structure for pursuing a coherent approach to improving and reforming PFEM. The Recipient now plans to pursue an overall program for PFEM through strengthening the structures for PFEM, consolidating existing and planned activities into a sector wide approaches based reform program. Therefore, it has been agreed with Donors that the MDTF will be the instrument for mobilizing financial resources to ensure a coordinated approach to the implementation of these reforms.

Section 2. Objectives

The objective of the MDTF is to further advance the pace of public financial management reforms in the Recipient.

Section 3. Governance Structure

Joint Government Donor Committee:

The committee will be the main oversight body for the MDTF. The committee will be co-chaired by the Recipient’s Secretary of Treasury and IDA in its capacity as the MDTF
Administrator and will include representatives from the Donors, chairs of various project Steering Committees, or their representatives, principal accounting officers or representatives of the implementing departments of relevant project components and the director of the Public Finance and Economic Management Unit. The main functions of this committee will be to: (i) review and monitor the implementation of the MDTF in line with the Recipient's overall PFEMRP; (ii) review and approve projects submitted for funding out of the MDTF; (iii) monitor progress on the annual work program, budgetary allocation or funding commitments and disbursements and any other adjustments that may be necessary. The committee will meet as needed but in any case, not less than semi-annually.

Section 4. The Beneficiary Institutions

The direct beneficiary institutions include the Ministry of Finance and Development Planning, the Accountant General’s Department, the Central Internal Audit, Ministry of Local Government, the Office of the Director of Public Procurement, Malawi Revenue Authority, National Local Government Financing Committee, Public Enterprise Reform and Monitoring Unit (PERMU), other Ministries, Departments and Agencies of the Recipient and the National Audit Office.

Section 5. DESCRIPTION OF ACTIVITIES

I. RECIPIENT EXECUTED ACTIVITIES

1. Resource Mobilization

Carrying out a program of activities designed to maximize revenue mobilization, such program to include support towards establishment of a fair and transparent tax policy and administration of tax laws; enhancing tax compliance through organizational restructuring and modernization of business processes; improving service delivery; enhancing information and communication technology infrastructure and operating systems; developing major systems for domestic tax division and improving customs systems functionalities.

2. Planning and Budgeting

A. Planning and Policy Analysis

Carrying out a program of activities designed to improve planning and policy analysis, such program to include: (i) developing the macroeconomic model for macroeconomic forecasting; (ii) strengthening public sector investment program process; (iii) achieving an improved planning process for projects and programs; and (iv) improving the use of economic analysis for macro fiscal forecasting and policies, sectoral and financial sector policies and advice, as well as related research and monitoring.
B. Budgeting

Carrying out a program of activities designed to improve budget formulation process in Malawi: (i) the Budget planned in line and consistent with a Medium-Term Expenditure Framework (MTEF). The MTEF will have to be aligned with the new priorities in the Malawi Growth Development Strategy II; (ii) Clear and accurate budget documentation produced which outlines both inputs and expected ministerial outputs; (iii) Improved budget systems and processes (including IT systems) introduced that enable timely and accurate budget submissions. Finally the Budget Law should be drafted to define duties and responsibilities of various stakeholders in the budget process and provide clear enforcement measures during budget formulation and implementation.

C. Parastatal Financing

Carrying out a program of activities designed to assist the Recipient in making strategic decision with regards to parastatals, such program to include: (i) (a) support towards possible privatization of parastatals; (b) improving legal framework regulating parastatals; and (c) monitoring progress and review of the development concerning the parastatals; and (ii) (a) capacity building activities for the Public Enterprise Reform and Monitoring Unit (PERMU) staff and needs assessment for the staff in terms of trainings and on the job assistance; (b) providing technical or on the job training in various relevant areas; and (c) providing on the job support in various industry sectors.

3. Budget Execution

A. Procurement

Carrying out a program of activities designed to strengthen the implementation of the procurement legislation and regulations, such program to include: (i) undertaking a procurement value chain analysis; (ii) capacity building activities to strengthen the procurement function within the civil service; (iii) strengthening monitoring and audit functions for procurement; and (iv) creating a platform for stakeholder dialogue and participation in procurement reforms.

B. Accounting and Financial Management

(i) Accounting and Integrated Financial Management Information Systems

Carrying out a program of activities designed to improve the efficiency and comprehensiveness of government accounting and financial management systems, and the comprehensiveness, transparency, and timeliness of fiscal reporting, including civil works and furnishing for sites for installation of integrated financial management systems.
(ii) Local Government Financial Management

Carrying out a program of activities designed to strengthen local government financial management, resource management, program delivery, transparency and accountability, including civil works and furnishing for sites for installation of integrated financial management systems.

(iii) Payroll Management

Carrying out a program of activities designed to improve payroll management, such program to include: (a) business processes re-engineering review and follow-up; (b) operationalization of recruitment and performance management modules, including job descriptions into establishments, and Human Resources Management Information System roll out in the regions; (c) providing related training to staff; and (d) enhancing audit coverage of payroll area.

(iv) Internal Audit

Carrying out a program of activities designed to enhance internal audit, such program to include: (a) enhancing the legal framework and institutional arrangements for the internal audit function; and (b) providing various capacity building activities such as providing on-the-job assistance, undertaking relevant international study tours and implementing a train-the-trainer program.

C. Cash Management and Debt Management

Carrying out a program of activities designed to enhance cash and debt management, such program to include: (i) designing and implementing a Government-wide cash flow forecasting system and providing training; and (ii) enhancement of the legal framework, the institutional set-up and operational risk management for debt management.

4. Oversight

A. Monitoring and Reporting

Carrying out a program of activities designed to enhance the monitoring and evaluation of development policies and strategies, including, strengthening public expenditure analysis.

B. External Audit

Carrying out a program of activities designed to strengthen the operational capacity of the National Audit Office and build its capacity.
5. **PFEMRP Management**

Carrying out a program of activities designed to enhance the capacity of the PFEMU for management of the agreed development program, including monitoring its objectives and performance against the indicators.

II. **BANK EXECUTED COMPONENT**

(a) Strengthened supervision and implementation support; (b) undertaking specialized study or independent evaluation of the program as per agreement with the Recipient and Donors; and (c) costs of analytical studies, just-in-time advice, independent audits, public survey, knowledge dissemination workshops and any other activities as agreed among the financing partners in the context of the reform program.

Section 6. **CATEGORIES OF EXPENDITURE**

I. For Bank-Executed activities the Contributions may be used to finance (a) associated Overheads; (b) consultant fees; (c) contractual services; (d) equipment costs lease; (e) extended term consultants; (f) field assignment benefits for Bank Staff; (g) media and workshop costs; (h) Staff Costs excluding indirect costs; (i) temporary support staff costs; and (j) travel expenses.

II. For Recipient-Executed activities, the Contributions may be used to finance (a) goods; (b) consulting services; (c) training; (d) incremental Operating Costs; and (e) works.
ANNEX 2

Standard Provisions Applicable to the Multi-Donor Trust Fund for the Malawi
Public Finance and Economic Management Reform Program

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

1. Administration of the Contributions

1.1. IDA 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 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 IDA’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 Bank resources to finance terrorist activity, in line with IDA’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 IDA 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 IDA.

2. Commingling, Exchange and Investment of the Contributions

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

2.2. The Contributions may be freely exchanged by IDA into other currencies as may facilitate their disbursement.

2.3. IDA shall invest and reinvest the Contributions pending their disbursement in accordance with IDA’s policies and procedures for the investment of trust funds administered by IDA. IDA shall credit all income from such investment to the Trust Fund to be used for the same purposes as the Contributions.
3. **Administrative Cost Recovery**

3.1 In order to assist in the defrayment of the costs of administration and other expenses incurred by IDA under this Agreement, IDA 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 as defined in Annex 1 up to a maximum of 6.37% 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 costs increase as a result, the Donors acknowledge that an additional administrative fee may be applied to such new contributions.

4. **Grants to Recipient**

4.1. IDA shall, as administrator of the Trust Fund on behalf of the Donors, enter into grant agreements (the “Grant Agreements”) with The Republic of Malawi (the “Recipient”) 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 IDA and the Donors. Upon request by a Donor, IDA shall furnish a copy of the Grant Agreements to the Donors.

4.2. IDA shall be responsible for the supervision of the activities financed under the Grant Agreements. Subject to the consent of the Recipient, representatives of the Donors may be invited by IDA to participate in Bank supervision missions related to the Trust Fund.

4.3. IDA 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 IDA under any Grant Agreements. To the extent practicable, IDA shall afford the Donors the opportunity to exchange views before effecting any such modification or exercising any such remedy.

5. **Procurement**

5.1. 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 IDA’s Guidelines on “Procurement under IBRD Loans and IDA Credits” and IDA’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.

5.2. 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 IDA and shall be carried out in accordance with its applicable policies and procedures.
6. **Accounting and Financial Reporting**

6.1. IDA shall maintain separate records and ledger accounts in respect of the Contributions deposited in the Trust Fund account and disbursements made therefrom.

6.2. IDA 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.

6.3. IDA shall provide to the Donors, within six (6) months following the end of each Bank fiscal year, an annual single audit report, comprising (1) a management assertion together with an attestation from IDA’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 IDA’s external auditor’s opinion thereon. The cost of the single audit shall be borne by IDA.

6.4. If a Donor wishes to request, on an exceptional basis, a financial statement audit by IDA’s external auditors of the Trust Fund, the Donor and IDA shall first consult as to whether such an external audit is necessary. IDA 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, IDA shall arrange for such external audit. The costs of any such audit, including the internal costs of IDA with respect to such audit, shall be paid by the requesting Donor.

6.5. IDA shall provide the Donors with copies of all financial statements and auditors’ reports received by IDA from the Recipient pursuant to the Grant Agreements.

7. **Progress Reporting**

7.1. IDA 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 8.1, IDA shall furnish to the Donors a final report on the activities financed by the Trust Fund.

7.2. Any Donor may review or evaluate activities financed by the Trust Fund. The Donor and IDA shall agree on the scope and conduct of such review or evaluation, and IDA 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.
8. **Disbursement; Cancellation; Refund**

8.1 It is expected that the Contributions will be fully disbursed by IDA by December 31, 2017. IDA shall only disburse Contributions for the purposes of this Agreement after such date with the written approval of the Donors.

8.2 Any Donor or IDA 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 IDA 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.

8.3 Following the final disbursement date specified in paragraph 8.1, IDA 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 IDA 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 8.2.

9. **Disclosure**

IDA 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.