Multi-Donor Trust Fund for the Malawi Public Finance and Economic Management Reform Program
Grant Agreement

(Financial Reporting and Oversight Improvement Project)

between

REPUBLIC OF MALAWI

and

INTERNATIONAL DEVELOPMENT ASSOCIATION

acting as administrator of the Multi-Donor Trust Fund for the Malawi Public Finance and Economic Management Reform Program

Dated March 15, 2013
GRANT AGREEMENT

AGREEMENT dated MARCH 15, 2013, entered into between REPUBLIC OF MALAWI ("Recipient"); and INTERNATIONAL DEVELOPMENT ASSOCIATION ("World Bank"), acting as administrator of the Multi-Donor Trust Fund for the Malawi Public Finance and Economic Management Reform Program (PFEMRP).

The Recipient and the World Bank hereby agree as follows:

**Article I**
Standard Conditions; Definitions


1.02. 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.

**Article II**
The Project

2.01. The Recipient declares its commitment to the objective of the project described in Schedule 1 to this Agreement ("Project"). To this end, the Recipient shall carry out the Project through its Ministry of Finance in accordance with the provisions of Article II of the Standard Conditions.

2.02. Without limitation upon the provisions of Section 2.01 of this Agreement, and except as the Recipient and the World Bank shall otherwise agree, the Recipient shall ensure that the Project is carried out in accordance with the provisions of Schedule 2 to this Agreement.
Article III
The Grant

3.01. The World Bank agrees to extend to the Recipient, on the terms and conditions set forth or referred to in this Agreement, a grant in an amount equal to eight million United States Dollars ($8,000,000) ("Grant") to assist in financing the Project.

3.02. The Recipient may withdraw the proceeds of the Grant in accordance with Section IV of Schedule 2 to this Agreement.

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

Article IV
Effectiveness; Termination

4.01. This Agreement shall not become effective until evidence satisfactory to the World Bank has been furnished to the World Bank that the Recipient has adopted the Project Implementation Manual in accordance with the provisions of Section I.C of Schedule 2 to this Agreement.

4.02. 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 4.01 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.

4.03. This Agreement and all obligations of the parties under it shall terminate if it has not entered into effect by the date ninety (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.
5.01. The Recipient’s Representative referred to in Section 7.02 of the Standard Conditions is its minister responsible for finance.

5.02. 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. 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

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

REPUBLIC OF MALAWI

By

Authorized Representative

Name: Hon. Ken Lipenga, MP
Title: Minister of Finance

INTERNATIONAL DEVELOPMENT ASSOCIATION
acting as administrator of the Multi-Donor Trust Fund for the Malawi Public Finance and Economic Management Reform Program.

By

Authorized Representative

Name: Sandra Bloemenkamp
Title: Country Manager
SCHEDULE 1

Project Description

The objective of the Project is to improve the internal controls, accounting, reporting and oversight of the Recipient's finances at the central and decentralized levels in its ministries, departments and agencies.

The Project consists of the following parts:

Part 1. Accounting and Financial Management

Improvement of the Recipient's systems and controls for public accounting, reporting and financial management through, *inter alia*:

(a) enhancing the efficiency and comprehensiveness of accounting and financial management systems in the Recipient's ministries, departments and agencies including (i) improving transparency and timeliness of fiscal reporting, (ii) comprehensive representation of the entirety of the Recipient's revenues expenditures and financing transactions in integrated financial management and information system (IFMIS), (iii) interfacing of IFMIS to support electronic funds transfer (EFT) and online reconciliation with the accounting system of the Reserve Bank of Malawi (RBM) to improve efficiency in payments and bank reconciliations; (vi) implementation of an electronic payments system at Accountant General's Department and the Recipient's ministries; (v) implementation of cash basis international public sector accounting standards (IPSAS); (vi) roll out of a budgeting module to all the Recipient's ministries, departments and agencies; (vii) implementation of a fixed assets register at all the Recipient's ministries, (viii) roll-out of business intelligence and reporting tools to select users within the Recipient's ministries, departments and agencies and (ix) provision of support towards decentralization of public budgeting, accounting and reporting;

(b) strengthening of the Recipient's public payroll controls and decentralization of the central payroll operations to three select districts within the Recipient's territory, including (i) re-engineering of business processes to effect automated posting to IFMIS general ledger through interface, follow up and cataloguing of all payroll processes; (ii) roll-out of a payroll system to the districts; (iii) provision of specialized training for payroll system administrators and managers, and user training for users within the Recipient's ministries, departments and agencies; (iv) payroll audit; (v) development of payroll interface by the Accountant General's Department; (vi) provision of hardware support for
decentralization of payroll operations to three select districts; and (vii) provision of support to the establishment of a disaster recovery center (DRC) for payroll; and

(c) provision of support in the roll out of IFMIS to the Recipient’s district assemblies.

Part 2. Internal Audit

Strengthening of the CIAU through, inter alia: (a) improvement of governance and legal framework to provide a wider range of internal audit services and improve quality and coverage; (b) capacity building for the CIAU, including the development of a human resources development plan, support to the recruitment, retention and training of CIAU staff; (c) establishment of quality assurance arrangements for quality audits and reports, including the development of working papers for appropriate methodologies and maintenance of periodic quality assessment; and (d) design and implementation of a reporting and management response system for internal audit performance.

Part 3 External Audit

Strengthening the operational capacity of the NAO through, inter alia: (a) review and updating of audit manuals for regularity audit, revenue audit, procurement audit, information technology audit, and use of Computer Assisted Audit Techniques (CAATS); (b) alignment of the audit manuals and audit training guides to meet international standards for auditing and CAATS; (c) provision of Training to auditors in the use of said audit manuals and management of public sector financial and operating performance; (d) provision of training to the NAO accounting staff to prepare the NAO financial statements; (e) provision of Training to NAO managers in strategic human resource management; (f) provision and installation of appropriate audit management software and CAATS software and training in the use of said software; (g) acquisition of relevant audit equipment including laptops and desktop computers, an effective intranet and extranet system, information, communications and technology hardware and service, and website updates; (h) study visits on comparative communication, accountability, independence, and parliamentary reporting practices in other supreme audit institutions (SAIs) within the region; (i) facilitation of the development of amendments to the Public Audit Act by the Recipient’s ministry responsible for justice; and (j) development of procedures for budget presentation to the Recipient’s parliament.
Part 4. Project Management

(a) Project coordination, management and monitoring, preparation of financial audits and periodic evaluations and provision of goods, Training, Operating Costs and consultants’ services for the said purposes.

(b) (i) Provision of support towards the development of information and communications technology to enhance communication between the Recipient’s ministry responsible for finance and other PFEM institutions; (ii) facilitation of studies, review and assessments of the Recipient’s public finance and economic management; and (iii) facilitating development and appraisal of other components of PFEMRP.
SCHEDULE 2

Project Execution

Section I. Institutional and Other Arrangements

A. Institutional Arrangements

1. PFEM Steering Committee

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

   (b) Without limitation upon the provisions of paragraph (a) of Section I.A.1 of this Schedule 2, the PFEM Steering Committee shall be chaired by the Secretary to the Treasury and shall be comprised of, inter alia, representatives of the Recipient’s ministries and departments at the time responsible for public financial management-related activities.

   (c) The PFEM Steering Committee shall meet at least once every six months and shall be responsible for Project oversight, including inter alia, progress review on PFEM reform program outcomes and adjustment of the work program and strategy as necessary.

2. PFEM Technical Committee

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

   (b) Without limitation upon the provisions of paragraph (a) of Section I.A.2 of this Schedule 2, the PFEM Technical Committee shall be chaired by the director of Debt and Aid Division and shall be comprised of, inter alia, representatives of all the relevant ministries and departments within the Ministry of Finance.

   (c) The PFEM Technical Committee shall meet at least bi-monthly and shall be responsible for the project implementation progress review including, inter alia, ensuring that Component Heads comply with the policy guidelines as directed by PFEM Steering Committee.
3. **Technical Working Groups**

In order to ensure prompt and efficient policy and implementation dialogue for the Project, the Recipient shall maintain, at all times during the implementation of the Project, technical working groups, with mandate, composition and resources satisfactory to the World Bank ("Technical Working Groups"). To this end, the Technical Working Groups shall:

(a) include: (i) an audit Technical Working Group and (ii) an IFMIS Technical Working Group; and each shall be chaired by the director of the relevant department within the Recipient's ministry responsible for finance;

(b) hold monthly review meetings; and

(c) be responsible for providing technical input to the preparation, appraisal and monitoring of the Project; report to the PFEM Technical Committee and ensure that all Project activities comply with policy guidelines as outlined by the PFEM Technical Committee and the PFEM Steering Committee.

4. **PFEM Unit**

(a) The Recipient shall maintain, at all times during Project implementation, the PFEM Unit, with composition, terms of reference and resources satisfactory to the World Bank ("PFEM Unit").

(b) Without limitation upon the provisions of Paragraph (a) of Section I.A.4 of this Schedule 2, the PFEM Unit shall at all times: (i) be comprised of qualified and experienced personnel in adequate numbers, and to this end, the Recipient shall appoint, *inter alia*: a Project coordinator, a financial management specialist, a procurement specialist, an accountant and a monitoring and evaluation specialist; and (ii) be responsible for day-to-day Project coordination, 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 reviews by the PFEM Steering Committee and PFEM Technical Committees; (B) carrying out Project financial management and procurement activities; and (C) monitoring and evaluating the Project.
5. **Component Heads**

(a) The Recipient shall maintain, at all times during Project implementation, a component head for Parts 1, 2 and 3 of the Project, with composition, terms of reference and resources satisfactory to the World Bank, each of whom shall be responsible for the technical aspects of Project implementation for their respective parts of the Project and each of whom shall report through the PFEM Unit to the PFEM Steering Committee.

**B. Anti-Corruption**

The Recipient shall ensure that the Project is carried out in accordance with the provisions of 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”).

**C. Manuals**

1. The Recipient shall prepare, under terms of reference acceptable to the World Bank, and furnish to the World Bank for approval a proposed implementation manual for the Project, setting forth, inter alia, the detailed arrangements and procedures for: (a) institutional coordination and day-to-day execution of the Project; (b) disbursement and financial management; (c) procurement; and (d) monitoring, evaluation, reporting and communication.

2. The Recipient shall afford the World Bank a reasonable opportunity to exchange views with the Recipient on the proposed Project Implementation 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, except as the World Bank shall otherwise agree, the Recipient shall not assign, amend, abrogate, or waive the Project Implementation Manual, or any provision thereof.

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.
D. **Annual Work Plans and Budgets**

1. Not later than July 31 in each calendar year (or one (1) month after the Effective Date for the first year of Project implementation), the Recipient shall prepare and furnish to the World Bank a draft annual work plan and budget for the Project (including Training and Operating Costs) for the subsequent calendar year of Project implementation, of such scope and detail as the World Bank shall have reasonably requested.

2. The Recipient shall afford the World Bank a reasonable opportunity to review such draft annual work plan and budget, and thereafter shall carry out such annual work plan and budget during such subsequent calendar year as shall have been approved by the World Bank ("Annual Work Plan and Budget"). Only those activities that are included in an Annual Work Plan and Budget shall be eligible for financing out of the proceeds of the Financing.

3. For any training proposed to be included in an Annual Work Plan and Budget, the Recipient shall, *inter alia*, identify: (a) particulars of the training envisaged; (b) the criteria for selection of the personnel to be trained, and such personnel if known; (c) the selection method of the institution or individuals conducting such training; (d) the institution conducting such training if identified; (e) the purpose and justification for such training; (f) the location and duration of the proposed training; and (g) the estimate of the cost of such training.

4. Annual Work Plans and Budgets may be revised as needed during Project implementation subject to the World Bank’s prior written approval.

**Section II. Project Monitoring, Reporting and Evaluation**

A. **Project Reports; Completion Report**

1. 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 (1) calendar semester, and shall be furnished to the World Bank not later than ninety (90) days after the end of the period covered by such report.

2. 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 (6) months after the Closing Date.
B. Financial Management, Financial Reports and Audits

1. The Recipient shall, throughout Project implementation, maintain or cause to be maintained a financial management system in accordance with the provisions of Section 2.07 of the Standard Conditions.

2. Without limitation on the provisions of Part A of this Section II, the Recipient shall prepare and furnish to the World Bank, interim unaudited financial reports for the Project covering the quarter, not later than forty-five (45) days after the end of the period, in form and substance satisfactory to the World Bank.

3. 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 (1) fiscal year of the Recipient. The audited Financial Statements for each such period shall be furnished to the World Bank not later than six (6) months after the end of such period.

4. To this end, not later than three (3) months after the Effective Date, the Recipient shall recruit and maintain, throughout Project implementation, external auditors, with qualifications, experience, and terms of reference satisfactory to the World Bank.

5. To facilitate the implementation of activities related to Part 4(a) of the Project, the Recipient shall appoint and maintain throughout the Project implementation, an Auditor General, with qualifications, experience, and terms of reference satisfactory to the World Bank.

Section III. Procurement

A. General

1. Goods. All goods 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 Section I of the Procurement Guidelines, and with the provisions of this Section.

2. Consultants’ Services. All consultants’ services 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 Sections I and IV of the Consultant Guidelines, and with the provisions of this Section.

3. Definitions. The capitalized terms used below in 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 the Procurement Guidelines, or Consultant Guidelines, as the case may be.
B. Particular Methods of Procurement of Goods

1. International Competitive Bidding. Except as otherwise provided in paragraph 2 below, goods shall be procured under contracts awarded on the basis of International Competitive Bidding.

2. Other Methods of Procurement of Goods. The following table specifies the methods of procurement, other than International Competitive Bidding, which may be used for goods. The Procurement Plan shall specify the circumstances under which such methods may be used:

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) National Competitive Bidding</td>
</tr>
<tr>
<td>(b) Direct Contracting</td>
</tr>
<tr>
<td>(c) Shopping</td>
</tr>
</tbody>
</table>

3. Requirements for the National Competitive Bidding. The procedures to be followed for National Competitive Bidding shall be those set forth in the Recipient's Procurement Act of August, 2003, as revised from time to time in a manner deemed acceptable to the World Bank, subject, however, to the modifications described in the following paragraphs required for compliance with the Procurement Guidelines:

(i) No bidder or potential bidder shall be declared ineligible to bid for reasons other than those provided in Section I of the Procurement Guidelines;

(ii) Bidding documents acceptable to the World Bank shall be used;

(iii) 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;

(iv) 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;
(v) 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

(vi) 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.

C. **Particular Methods of Procurement of Consultants’ Services**

1. **Quality- and Cost-based Selection.** Except as otherwise provided in paragraph 2 below, consultants’ services shall be procured under contracts awarded on the basis of Quality- and Cost-based Selection.

2. **Other Methods of Procurement of Consultants’ Services.** The following table specifies methods of procurement, other than Quality- and Cost-based Selection, which may be used for consultants’ services. The Procurement Plan shall specify the circumstances under which such methods may be used.

<table>
<thead>
<tr>
<th>Procurement Method</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) Selection based on Consultants’ Qualifications</td>
</tr>
<tr>
<td>(b) Least Cost Selection</td>
</tr>
<tr>
<td>(c) Selection under a Fixed Budget</td>
</tr>
<tr>
<td>(d) Single Source Selection</td>
</tr>
<tr>
<td>(e) Selection of Individual Consultants</td>
</tr>
<tr>
<td>(f) Quality Based Selection</td>
</tr>
</tbody>
</table>

D. **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.

Section IV. **Withdrawal of Grant Proceeds**

A. **General**

1. The Recipient may withdraw the proceeds of the Grant in accordance with the provisions of: (a) Article III of 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 table in paragraph 2 below.

2. The following 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:

<table>
<thead>
<tr>
<th>Category</th>
<th>Amount of the Grant Allocated (expressed in USD)</th>
<th>Percentage of Expenditures to be Financed (inclusive of Taxes)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(1) Goods, non-consulting services, consultants’ services, Training and Operating Costs under the Project, except Part 3 of the Project</td>
<td>6,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>(2) Goods, non-consulting services, consultants’ services Training and Operating Costs under Part 3 of the Project</td>
<td>2,000,000</td>
<td>100%</td>
</tr>
<tr>
<td>TOTAL AMOUNT</td>
<td>8,000,000</td>
<td></td>
</tr>
</tbody>
</table>

B. Withdrawal Conditions; Withdrawal Period

1. Notwithstanding the provisions of Part A of this Section no withdrawal shall be made:

   (a) for payments made prior to the date of this Agreement, except that withdrawals up to an aggregate amount not to exceed $800,000 may be made for payments made prior to this date but on or after April 1, 2012, for Eligible Expenditures under the Project; or

   (b) under Category 2, unless the Recipient has fulfilled its obligations under Section II.B.5 of Schedule 2 to this Agreement.

2. The Closing Date referred to in Section 3.06 (c) of the Standard Conditions is June 30, 2016.
APPENDIX

Section I. Definitions

1. "Accountant General's Department" means the Recipient's central department responsible for accounting and any successor thereto.

2. "Annual Work Plan and Budget" means each annual work plan, together with the related budget, for the Project approved by the World Bank pursuant to the provisions of Section I.D of Schedule 2 to this Agreement.


4. "Auditor General" means an auditor general at the Recipient's national audit office.

5. "CIAU" means the Recipient's central internal audit unit and any successor thereto.

6. "Component Heads" means the component heads referred to in Section I.A.5 of Schedule 2 to this Agreement whose establishment is confirmed by the Recipient's letter, Ref. No. DAD/5/1/1/1/NC, dated February 8, 2013.


8. "Debt and Aid Division" means the division within the Recipient's Ministry of Finance responsible for coordinating external debt and aid, and any successor thereto.


10. "National Audit Office" or "NAO" means the Recipient's national audit office and any successor thereto.

11. "Operating Costs" means the incremental operating costs under the Project, based on the Annual Work Plans and Budgets approved by the World Bank, and incurred by the Ministry of Finance on account of utilities and supplies, bank charges, communications, vehicle operation, maintenance, and insurance, office space rental, building and equipment maintenance, public awareness-related media expenses, travel and supervision, and salaries of contractual and temporary
staff, but excluding salaries, fees, honoraria, and bonuses of members of the Recipient’s civil service

12. “PFEM” means public finance and economic management.

13. “PFEM Steering Committee” means the committee referred to in Section I.A.1 of Schedule 2 to this Agreement whose establishment is confirmed by the Recipient’s letter, Ref. No. DAD/5/1/1/1/ NC, dated February 8, 2013.

14. “PFEM Technical Committee” means the committee referred to in Section I.A.2 of Schedule 2 to this Agreement whose establishment is confirmed by the Recipient’s letter, Ref. No. DAD/5/1/1/1/ NC, dated February 8, 2013.

15. “PFEM Unit” means the unit referred to in Section I.A.4 of Schedule 2 to this Agreement established whose establishment is confirmed by the Recipient’s letter, Ref. No. DAD/5/1/1/1/ NC, dated February 8, 2013.


18. “Procurement Plan” means the Recipient’s procurement plan for the Project, dated November 27, 2012 and referred to in paragraph 1.18 of the Procurement Guidelines and paragraph 1.25 of the Consultant Guidelines, as the same shall be updated from time to time in accordance with the provisions of said paragraphs.


20. “Reserve Bank of Malawi” means the Recipient’s central bank.

21. “Secretary to the Treasury” means the secretary to the Recipient’s Ministry of Finance.


23. “Training” means the costs of training under the Project, based on the Annual Work Plans and Budgets approved by the World Bank, and attributable to seminars, workshops, and study tours, along with travel and subsistence allowances for training participants, services of trainers, rental of training facilities, preparation and reproduction of training materials, and other activities directly related to course preparation and implementation.