

Budget Support Cooperation



in Finland's Development Cooperation



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Guidelines for the Preparation, Implementation
and Monitoring of Budget Support Cooperation.



Ministry for Foreign Affairs of Finland
Department for Development Policy

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Foreword

In accordance with Development Policy: Government Resolution 2004 (hereafter the White Paper on Development Policy) approved by the Government of Finland on 5 February 2004, the values and development goals of the UN Millennium Declaration provide a framework for Finland's development policy. Our development policy's central objective is to contribute towards the eradication of extreme poverty. The White Paper on Development Policy emphasises addressing the multidimensional problem of poverty through comprehensive and coherent activity in several policy sectors and levels of influence.

Development cooperation is a key instrument of development policy. The drive towards increased effectiveness has changed and expanded the range of our development cooperation instruments from project-specific cooperation to programme-based cooperation as well as new public-private partnership programmes. The White Paper on Development Policy sets the objective of increasing programme-based cooperation, which means funding poverty reduction strategies and sectoral programmes through budget support or joint financing arrangements through sectoral funds with other donors. A gradual changeover from project-based support to extensive programme-based cooperation is an international trend supported by the lessons learned in international development cooperation. Strengthening the developing countries' role in the planning and implementation of the cooperation programmes and the need to harmonise donor activities have become highly important objectives.

The objective of these Guidelines is to support Finland's participation in the preparation, implementation and monitoring of bilateral budget support cooperation in our main partner countries. The Guidelines can be used to promote the coherence of bilateral and multilateral operational policies by also applying it in the formulation of Finland's policies in multilateral development banks and the EU. The key principles and objectives of the Finnish development policy create the foundation for the Guidelines regarding budget support cooperation.

In addition to the various departments of the Ministry for Foreign Affairs, the Finnish diplomatic missions in Finland's long-term partner countries participated in the preparation of these Guidelines. The preparation process also utilised the lessons already learned by Finland through participation in budget support cooperation, particularly in Tanzania, Mozambique and Nicaragua, as well as the budget support policies and guidelines of other donors. The key stakeholder groups of the Ministry for Foreign Affairs were also heard during the preparation.

The Guidelines are mainly intended for the representatives of the foreign affairs administration in Finland and Finnish missions abroad, the Finnish stakeholder groups, authorities of the partner countries as well as other partners participating in budget support cooperation. General instructions in nature, the Guidelines present the basic policies but will not substitute for case-specific analysis and decision-making. Budget support cooperation is a new and fast-developing instrument. Consequently, these Guidelines will also be complemented as more experience is gained.



Ritva Jolkkonen
Director General

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1. INTRODUCTION

These Guidelines will be used as a tool for the planning, implementation, monitoring and evaluation of budget support programmes. They are intended primarily for the officials of the Ministry for Foreign Affairs in Finland and in Finnish missions, the Finnish stakeholder groups as well as the authorities of the partner countries and other partners participating in budget support cooperation. The Guidelines can be used to promote the coherence of bilateral and multilateral operational



policies by also applying them in the formulation of Finland's policies in multilateral development banks and the EU.

The Guidelines focus on budget support to national Poverty Reduction Strategy Papers (PRSPs) and to the achievement of the UN Millennium Development Goals (MDGs) in Finland's long-term partner countries. The Guidelines deal with budget support as an instrument of development cooperation, so supplementary material related to the contents and quality of poverty reduction strategies can be found from <http://global.finland.fi/english/poverty/>.

Flexible general instructions in nature, these Guidelines present the basic policies but will not substitute for case-specific analysis and decision-making. Budget support cooperation is a new and fast-developing instrument. Consequently, these Guidelines will also be complemented as more experience is gained.

2. BUDGET SUPPORT AS A DEVELOPMENT COOPERATION INSTRUMENT

Budget support is one of the instruments of programme-based cooperation. Others include balance of payment support, import support, food and other material assistance, debt relief and joint financing arrangements for sectoral programmes. Budget support differs from the above programme-based cooperation instruments in its target-setting, conditions of cooperation and implementation of assistance.



When budget support is allocated unearmarked to the partner country's budget, it is called general budget support. In general budget support, the conditions of donor funding are based on compliance with the policies and priorities set in the state overall budget. Sector budget support means budget funding earmarked for a specific sector or sectors. The conditions of sector budget support are defined to apply to the implementation of the sector or sectoral policies funded. These Guidelines will only deal with the preparation, monitoring and implementation of general budget support (hereafter "budget support") as an instrument of Finland's development cooperation.

Budget support means direct transfers of funds from donors to the partner country's budget in order to fund public sector expenditure in a situation where the country itself is unable to raise and allocate enough public resources to reducing poverty and promoting economic growth. The support is allocated to the implementation of the partner country's national poverty reduction strategy, but it is not earmarked to cover any specific public expenditure. On granting budget support, donors commit themselves to supporting the implementation of the national PRSP by participating in its funding through the partner country's budget over a prearranged period.

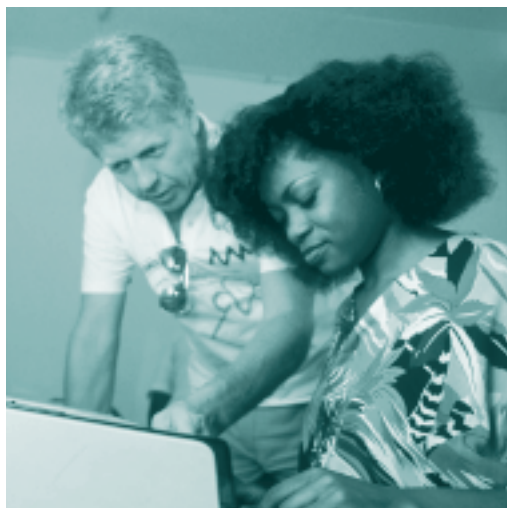
The use of budget support funding is monitored on the basis of the partner country's legislation and administrative practices regarding public financial management. The partner country's government is primarily accountable for the use of budget funds and the implementation of the national PRSP to its own citizens, not to the donors. Therefore budget support cooperation can strengthen the accountability of the partner country's government for the use of budget funds to its own citizens. Monitoring the transparency of the use of budget support and the effectiveness of the support requires monitoring and evaluation practices mutually agreed upon between the donors and the partner country. Such practices should be based on the partner country's own monitoring mechanisms.

The key objectives and reasons for budget support cooperation can be summarised as follows:

- the cooperation is based on the poverty reduction strategy formulated by and implemented under the leadership of the partner country;
- the partner country is responsible for leading the cooperation process, and its public financial management mechanisms are complied with in the cooperation process;
- the cooperation strengthens the accountability between the government and citizens in the partner country as the government is accountable to its citizens for the progress made in the implementation of the PRSP;
- the cooperation promotes the efficient and rational use of all of the resources available in accordance with the national priorities set by the partner government;
- the cooperation increases the predictability and transparency of the financial base of the state budget;
- the cooperation creates a framework for aid harmonisation and for the efforts by the partner country and the donors to strengthen coordination and coherence in key policy issues.

3. GENERAL PRINCIPLES GUIDING BUDGET SUPPORT COOPERATION

The principles guiding the implementation of Finland's development cooperation create the foundation for budget support cooperation. The White Paper on Development Policy adopted by the Government of Finland in February 2004 underlines the leadership of developing countries in their own development processes, the significance of harmonisation and increasingly close cooperation between donors as well as the importance of transparency and predictability of aid to the developing



countries' own planning processes. The cross-cutting theme of the White Paper on Development is Finland's objective to act coherently at all levels of international and national policies applied to impact the situation of developing countries. The main development policy framework is created by the values and goals of the UN Millennium Declaration that Finland has committed itself to in the UN, the Bretton Woods Institutions (BWIs) and the OECD/DAC.

Finland's budget support cooperation is guided by the following principles:

Ownership

Sustainable development results can only be achieved when the developing countries lead their own development processes. The White Paper on Development Policy emphasises the developing countries' right and obligation to ensure extensive social participation in decision-making related to the directions and means of development.

Harmonisation

Closer cooperation between donors, harmonisation of operational practices and the predictability of aid improve the effectiveness and impacts of development cooperation. Harmonising donor objectives and operational methods with the partner country's own priorities and implementation systems also strengthens the partner countries' ownership and capacity development. Harmonisation helps to avoid overlapping donor activities and cuts down the transaction costs related to the cooperation.

Transparency and predictability

Long-term donor and partner country commitment to cooperation is a necessary prerequisite for achieving the mutually agreed development objectives. The partner countries' national poverty reduction strategies are medium-term plans whose drawing up and implementation also requires information about plans of the donors both in terms of policies and financing.

Coherence

Finland's White Paper on Development Policy emphasises coherence between the policy sectors most significant for development. Development issues should be addressed in a comprehensive manner in all foreign policy sectors (security, trade, development and human rights). Finland is committed to coherent activities utilising various policy measures both at the international and national level.

Finland's participation in budget support cooperation promotes the practical implementation of the guiding principles. By granting budget support, Finland participates in the implementation of the national poverty reduction strategy, is committed to acting within the national planning, implementation and monitoring systems and participates in an open dialogue about issues including its own policy and financing plans with the partner country's government. Finnish expertise can be utilised in building the partner country's capacity in broad interaction with the rest of the donor community committed to budget support cooperation.

4. PREREQUISITES FOR BUDGET SUPPORT COOPERATION

Finland's White Paper on Development Policy (2004) sets the objective of increasing programme-based cooperation, which means the financing of poverty reduction strategies and sectoral programmes through budget support or joint financing arrangements with other donors. The basic prerequisites for programme-based cooperation are defined as follows:



- the partner country's budget process is transparent, and the country has sufficient planning, implementation and financial management capacities;
- the dialogue between the donors and the partner country form an essential component of budget support cooperation;
- the conditions of financing are based on the objectives set in the poverty reduction strategies and the progress made towards their achievement;
- the conditions as well as the monitoring of financing are agreed upon with the government and all of the donors granting budget support;
- Finland is committed to medium-term predictability of disbursements and to transparency concerning the criteria used when deciding the annual level of disbursement.



budget support cooperation with a long-term partner country, the following issues in particular must be analysed:

In addition to the above basic prerequisites, decision-making about budget support cooperation is also guided by the criteria set for Finland's long-term cooperation (Government Decision-in-Principle 2001). According to the Decision-in-Principle, bilateral programme-based cooperation is limited to long-term partner countries. This restriction also applies to budget support cooperation. Granting budget support to other partner countries can be considered case by case in collaboration with other donors (for example the unearmarked budget financing granted to East Timor in 2002). When assessing the possibility of

The country's need for assistance

Poverty reduction is the main objective of Finland's support in the long-term partner countries. Poverty reduction is also the primary goal of budget support cooperation. In addition, budget support cooperation is guided by the objectives and focal areas set in Finland's White Paper on Development Policy. They emphasise Finland's commitment to the values and goals of the UN Millennium Declaration, to increasing global security, promoting gender equality, promoting democracy and respect for human rights, preventing global environmental problems and increasing economic interaction.

On the basis of the criteria for long-term partner countries, Finland's budget support cooperation focuses on the least developed and low-income countries that are not independently able to raise and allocate sufficient resources to finance the public expenditure required for poverty reduction.

Commitment to development

In budget support cooperation, the main criteria used to assess a country's will for development are the country's commitment to poverty reduction, the effectiveness of the country's public financial management and the transparency of its budgetary process. The basic prerequisite for budget support cooperation is that the partner country has drawn up a long-term PRSP and is committed to its implementation.

The national PRSP not only forms a basis for budget support cooperation but also provides a framework for all cooperation between Finland and the partner country.

In countries included in the Heavily Indebted Poor Countries (HIPC) debt relief initiative, the role of the World Bank and the International Monetary Fund (IMF) in the formulation of the poverty reduction strategy and the monitoring of its implementation is emphasised. This is because eligibility for HIPC debt relief requires that the national poverty reduction strategies and the progress reports regarding their implementation are endorsed by the Boards of Executive Directors of these financial institutions. The key progress reports on the implementation of the poverty reduction strategy are the Annual Progress Report (APR) and the related World Bank and IMF Joint Staff Assessment (JSA).

Finland stresses the fact that the formulation and implementation of the poverty reduction strategy should be based on a broad national process in a manner whereby democratically elected decision-making bodies in particular and also representatives of the civil society have a clear role in the various stages of the process. Women's participation in the formulation of the PRSP must also be secured. Furthermore, Finland finds it important that the evaluation of the implementation of the PRSP in the partner country is based on broad-based dialogue between the different parties.

Budget support cooperation requires a functioning and transparent public financial management system, an open budgetary process as well as a reliable mechanism for the monitoring of expenditure. Since budget support in practice means transfers of funds from the donors to the partner country's budget for the implementation of the country's poverty reduction strategy, it is necessary that the partner country's budget planning, management and monitoring is based on national legislation. The partner country's budget formulation process must be transparent and also allow the donors to monitor the formulation and implementation of the budget. A requirement for granting budget support is that the partner country's annual budget and Medium Term Expenditure Framework (MTEF) comply with the focal areas of the poverty reduction strategy.

Finland's ability to provide assistance

The preparation of budget support cooperation and the monitoring of its implementation is based on close cooperation and negotiations with all of the donors and the representatives of the partner government. Finland can only take part in cooperation with countries that have a Finnish diplomatic mission because budget support cooperation requires broad and regular dialogue between the partner country and the donors. The Finnish mission needs to have enough experts acquainted with budget support cooperation and the partner country's conditions who can participate fully in the cooperation and ensure that the objectives and principles central to Finland are reached. The need for expertise (field of specialisation) must be considered for each case, taking into consideration the coverage of the expertise of the rest of the donor community and the added value

of Finland's expert contribution to the cooperation. Finland should also seek to strengthen its own expertise in issues related to budget support cooperation (see also Chapter 11: Human resources and competence).

What can also be regarded as a prerequisite for Finland's participation is that there is a donor community prepared to create a common policy regarding budget support in collaboration with the government in the partner country. Finland should not enter into budget support cooperation as a sole donor.

Prerequisites for effectiveness

The prerequisites for the effectiveness of budget support cooperation are the same as those set for long-term development cooperation. The basic requirement for effectiveness is that conflicts or the threat of conflicts in the partner country do not hamper cooperation. Feedback received by Finland on previous cooperation processes is also a key criterion when assessing the prerequisites for the effectiveness of budget support. In addition, the partner country's administrative capacity must be at a level enabling the efficient utilisation of the additional resources made available through the cooperation. The country's resources for planning and managing the state budget are often limited, and their development usually constitutes a central part of budget support cooperation. The country needs to show commitment to capacity development in cooperation with the donors.

In assessing the country's public financial management capacity, Finland can utilise analyses drawn up under the leadership of international financial institutions. The most important of these include the Public Expenditure Review (PER), the Country Financial Accountability Assessment (CFAA) and the Country Procurement Assessment Review (CPAR). A more detailed presentation of the above assessment methods can be found in Chapter 6 below. Finland also has the opportunity to actively participate in the formulation of these analyses.

Table 1. Summary of the criteria for budget support cooperation

Criterion	Criteria for long-term partner countries	Issues receiving special assessment with regard to budget support cooperation
The country's need for assistance	<ul style="list-style-type: none"> poverty (a LDC or a low-income country) 	
Commitment to development	<ul style="list-style-type: none"> the country systematically harnesses all available resources to poverty reduction by promoting economic growth based on the principles of market economy, by expanding universal access to basic services (such as basic health care and education) and promoting equal distribution of income the country's economic policy provides an enabling environment for development cooperation the country makes determined efforts to advance democracy and equality and to reduce corruption the government of the country is committed to improving the human rights situation the country invests in sustainable use of natural resources and in the protection of the environment the country endeavours to be integrated into the world economy and international trade systems in order to promote its own development agenda the country promotes peaceful development in its region 	<ul style="list-style-type: none"> the partner country has a PRSP and is committed to its implementation (assessments incl. APR, JSA, partner country's budget, dialogue with the civil society) transparency of the budgetary process, budgetary discipline the government's verified previous commitment to implement agreed policy-conditions.
Finland's ability to provide assistance	<ul style="list-style-type: none"> Finland has a diplomatic mission in the country Finnish actors have experience of cooperation with the country and possess expertise that the country needs 	<ul style="list-style-type: none"> the mission has sufficient resources to influence the budget support cooperation broad policy dialogue between the partner country's government and the donor community
Prerequisites of effectiveness	<ul style="list-style-type: none"> conflicts or the threat of conflicts do not hamper cooperation the administrative capacity of the country is at a level which allows the efficient utilisation of the resources made available through the cooperation experience of the effectiveness of cooperation is positive 	<ul style="list-style-type: none"> the partner country has sufficient capacity for planning, implementation and financial management (assessments incl. PER, CFAA, CPAR)

5. PREPARATION STAGES OF BUDGET SUPPORT COOPERATION

The decision about Finland's participation in budget support cooperation is made as part of the preparation and decision-making process of the cooperation programme negotiated with the partner country. The process can be divided into three main stages: 1) a decision-in-principle within the Ministry for Foreign Affairs to launch the preparation of budget support cooperation, 2) agreement with the partner country, 3) technical preparation with the partner country.

A decision-in-principle within the Ministry for Foreign Affairs to launch the preparation of budget support cooperation

Internal preparation by the Ministry for Foreign Affairs is launched on the basis of an assessment made jointly by the regional department and unit responsible for the partner country and the Finnish diplomatic mission to the country. In accordance with the prerequisites for budget support cooperation presented in Chapter 4 above, the assessment needs to review the partner country's macroeconomic situation, PRSP emphases, budgetary process, public sector administrative capacity and the transparency and effectiveness of public financial management. The assessment also seeks to ensure that the other criteria steering the budget support cooperation are met. As mentioned above, the assessment is usually made in cooperation with the partner country's government and the other donors, utilising the tools developed for the analysis of the various problem areas. (For tools see Chapter 6.) Tools such as the Checklist for Assessment and Design of General Budget Support by the Royal Danish Ministry of Foreign Affairs (DANIDA 2003) can also be used as a guideline supporting the assessment process. The checklist can be found at <http://www.um.dk/danida/amg/>.

The assessment process regarding budget support cooperation and the decision-in-principle made on the basis of it form an essential part of the preparation and decision-making process. If the decision-in-principle is favourable, budget support financing also needs to be included in the financial planning related to development cooperation and taken into consideration in the preparation of the commitment authorisation decision.

Reaching an agreement with the partner country

The preparation stage of budget support cooperation requires consultations with the partner country at Ministry and mission level. The actual decision to start budget support cooperation is made in connection with the bilateral consultations where an agreement is made on the contents and extent of the cooperation programme between Finland and the partner country in question for the coming years. If budget support forms a part of a cooperation programme, this needs to be taken into consideration in the drawing up of the background memorandum and mandate for bilateral consultation. The proposal for the incorporation of the budget support into the mandate for bilateral consultation is processed by the Development Policy Steering Committee as part of the processing of the mandate.

Technical preparation with the partner country and other donors

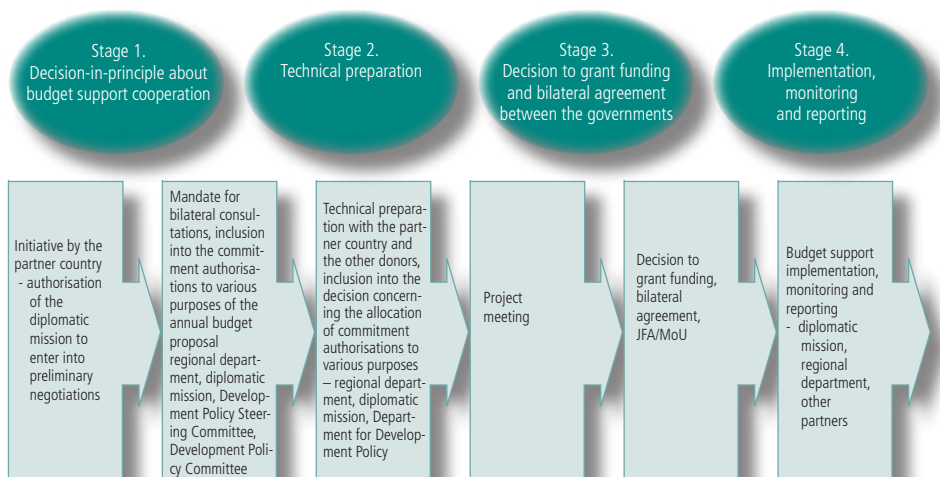
Technical preparation commences as soon as the decision is made to launch budget support cooperation with the partner country. This stage involves issues including consultations on the principles regarding the general conditions, implementation, appropriations, monitoring and reporting of budget support cooperation with the partner country and the other donors planning to grant budget support. The consultations result in a document signed by the partner country and all of the donors that is commonly called a Memorandum of Understanding (MoU) but that will be referred to as the Joint Financing Arrangement (JFA) in these Guidelines. This document forms the basis of budget support cooperation.

In addition, Finland signs a bilateral agreement with the partner country. The legal documents related to budget support cooperation will be discussed in more detail in Chapter 10 below.

The preparation process requires sustained cooperation between the various departments and units of the Ministry, the Finnish mission to the partner country, the authorities of the partner country and the other donors. The key actors at the Ministry include the leadership of the Ministry, the regional departments as well as the Department for Development Policy. The expertise of the Department for Global Affairs must also be utilised in the analyses of the partner countries' poverty reduction strategies and the evaluation reports produced by international financial institutions. Appointed by the Ministry for Foreign Affairs, the Development Policy Committee has an important role in the Ministry's policy formulation, particularly when preparing for cooperation consultations.

Description of the preparation and decision-making process related to budget support can be found in Appendix I.

Figure 1. Preparation stages of budget support



6. ANALYSIS AND MANAGEMENT OF RISKS RELATED TO BUDGET SUPPORT COOPERATION



Donor funding always increases discretion and flexibility in the use of the partner country's public finances, irrespective of whether the funding is project-based, sectoral or general budget support. Donor funding enables the partner government to finance public expenditure that would otherwise have been covered by the state budget and, correspondingly, use the freed resources for other purposes (possibly to cover expenditure that donors are not willing to finance). This basic feature of aid is referred

to as 'fungibility'. Fungibility is lowest when funding is tied to the priorities of the partner government's budget and the related broad policy dialogue between the donors and the partner government.

The main political and fiduciary risks concerning budget support are related to state budget transparency and accountability issues as well as the budgeting process. Therefore it must be ensured that the state budgetary policy reflects the opinion of democratically elected decision-makers and that the government is able to implement the budget in compliance with the basic principles of transparency and accountability. The state budget, however, is not always transparent. In some cases, for example, military expenditure is not stated or the entire state budget may even be kept secret. Political and fiduciary risk analyses should take place simultaneously as these risks are essentially interlinked from the viewpoint of state administration.

POLITICAL RISK

The following presents selected strategic perspectives and issues that will help to form an opinion on a country's preparedness for budget support cooperation from the viewpoints of democracy and good governance. The issues are to a great extent qualitative, and it may not be possible to find unambiguous answers to them. Instead, the aim is to reach a comprehensive understanding of the situation.

Preparation stage

Transparent and accountable public institutions often form the missing link between efforts towards poverty reduction and actual reduction of poverty. Consequently, as the parliament is the key administrative institution, the parliament also needs to have a key role in the preparation of the state budget. It is particularly important that democratically elected members of parliament can influence their country's budget priorities. A problem found in representative democracies is the low parliamentary representation of women that restricts their power to influence decision-making regarding public finances. In addition, the role of executive power very often dominates over legislative power in developing countries.

When considering budget support, the division of powers and the role of parliament in the budgetary process should be assessed. The parliament's role is problematic in one-party systems and other authoritarian societies as – since there is no real parliamentary opposition – parliamentary democracy's basic requirement of the expression of the popular will may not be realised in the contents of political debate. Furthermore, authoritarian administrations often have problems with accountability and transparency – issues that are analysed under fiduciary risk. Often another problem is also the fact that parliamentarians do not necessarily have the competence or sufficient information regarding issues related to budget preparation and monitoring.

On preparing budget support cooperation, Finland pays particular attention to the following questions:

- Was the partner country's government elected in a free and fair election, and does the government allow the free functioning of the opposition, respecting the rule of law?
- Which institutions have participated in the formulation of the PRSP, and how has the prioritisation taken place? Has the Parliamentary Finance Committee been enabled to act as a watchdog for government budgetary policy? Have women been enabled to participate in the formulation of the PRSP? Have the representatives of the civil society been enabled to participate in the formulation of the PRSP?
- What is the parliament's role in the budget formulation? Does the opposition have a say in the national budget formulation?
- Do the Ministry of Finance and the appropriate sectoral ministries have sufficient capacities and technical preparedness to implement the policies and action plans included in the PRSP?

Useful links about the role of parliament in the formulation of state budget can be found from sources including these:

www.worldbank.org/wbi/governance/parliament.htm

www.odi.org.uk/pppg/publications/papers_reports/spa/ins01.html

Corruption issues are essentially connected with the achievement of accountability and transparency. Authoritarian administrations often have problems with accountability and transparency as such administrations do not allow or they restrict the independent activities of various control institutions such as the national audit office, anti-corruption commissions, the media and/or non-governmental organisations.

Key questions from the Finnish viewpoint that should be addressed when preparing budget support cooperation include the following:

- What is the country's corruption situation, particularly amongst public sector actors?
- What kinds of trends can be observed in the country's corruption situation?
- Has the country's political leadership made a clear commitment to anti-corruption activities?
- Does the country have a functioning and independent national audit office, and does the office report directly to parliament or via the government?
- Does the country have any other independent control institutions that call for accountable and transparent governance?

Conflict issues are also connected with analysing the risks related to budget support. Countries that are drifting into an armed conflict often increase their security expenditure. It would not be appropriate if development cooperation funding ended up covering military expenditure because of the budget support instrument. For Finland, the dialogue within the EU is a key tool for mapping out the conflict situation.

On preparing budget support cooperation, Finland pays particular attention to the following questions:

- Is the state budget transparent, including security sector expenditure?
- Is the defence budget expenditure reasonable in proportion to other expenditure and in comparison with other countries in a corresponding situation?
- What is the country's general security policy situation, and can the following risk indicators be foreseen in the near future: deteriorating security situation, systematic repression of political freedoms, general economic collapse, serious human rights violations, discrimination of selected ethnic or political groups, mass migrations, rapid deterioration of the living conditions of a major population group?

The democracy requirement entails the following essential factors: the existence of a multiparty system and interest groups, an electoral system that guarantees

free and fair elections, an active civil society, free media and civilian supervision of armed forces and security authorities.

In many developing countries, the minimum democracy requirements are only met in part. The partner government's political will and commitment to reforms is a crucial factor when assessing the possibility of cooperation. Analysing this requires case-specific knowledge of the country's political situation.

Monitoring stage

The development of the partner country's political situation requires constant monitoring. Finland takes part in the policy dialogue in bilateral forums (including the bilateral consultations), in the form of EU dialogue (including Heads of Mission meetings) and multilateral forums (BWIs, the UN system). In addition, Finland's development cooperation is directed by the principles laid out by the Cotonou Agreement on good governance and issues and actions resulting in the suspension of development cooperation. The document titled *Thinking Strategically about Democracy Assistance: A Handbook on Democracy, Human Rights and Good Governance in Finnish Development Co-operation*, particularly Chapter 4, sets out the various areas of policy dialogue (<http://global.finland.fi/english/publications/pdf/ed2001demassist.pdf>).

In addition to policy dialogue, the management of political risks also involves participating in development programmes that promote democracy. These include taking part in strengthening the prerequisites of parliamentary work. In addition, supporting the various civil society actors that call for compliance with the principles of good governance amongst public sector actors is a means of contributing to the management of political risk. Democracy development can also be reinforced through strengthened cooperation between political decision-makers and the civil society.

Budget support falls under performance management in state administration. It is impossible to monitor budget support if the partner country does not have a public statistical and administrative information system through which changes in the country's poverty situation can be monitored. In recent years, many developing countries have been building their national Poverty Monitoring System (PMS), but no country has yet managed to create a system that performs without flaw. Thus the development of a PMS and other information systems forms a part of budget support cooperation in the same way as the development of public financial management systems.

FIDUCIARY RISK AND POVERTY IMPACTS

Accountability and transparency are the key principles of good governance. These principles culminate in the issues related to the use of public resources. Efficient and reliable public sector financial management strengthens accountability between the partner country and its citizens and the donors and promotes the achievement of the mutually agreed development objectives. In budget support, the significance of reliable financial management is emphasised as donor funding is not earmarked for specific public sector expenditure. Instead, the funds are channelled through the partner country's budget. Therefore the preparation stage of budget support cooperation must include an assessment of the strengths and weaknesses of the partner country's public financial management and monitoring system, the risks related to the use of the partner country's budget planning, implementation and reporting mechanisms as well as the partner country's efforts to develop its system of financial management.

According to Finland's view, attempts should also be made to assess the social and environmental impacts, particularly on the poorest and most vulnerable groups and areas, of the policy and institutional reforms included in the PRSPs and specified as conditions for budget support. Finland endeavours to develop the social and environmental impact assessments of poverty reduction strategies in collaboration with the partner countries and the other donors. The assessments are usually carried out as a joint effort by donors considering granting budget support, utilising, in particular, tools developed by the World Bank and the IMF for the analysis of financial management in developing countries. The main tools used are presented below in this Chapter.

It is not usually necessary for Finland to make separate assessments of the functioning of a country's financial management. Instead, it can use assessments already made or takes part in the making of joint assessments.

Preparation stage

When donor budget support funding is integrated into the partner country's own budget funding and the funds are channelled through the partner country's own planning and implementation mechanisms, there is a risk that budget support funding is not used for the expenditure agreed upon, the funds are not used efficiently and the use of the funds is not appropriately reported. Such risk is referred to as 'fiduciary risk'. Risk assessment requires analysing the partner country's financial management in order to identify the strengths and weaknesses. The IMF Code of Good Practices on Fiscal Transparency specifies the objectives in terms of general principles and practices of fiscal management that should be aimed for and provides a starting point for the assessment. The Code is based on the following objectives:

- clarity of roles and responsibilities
- public availability of information
- open budget preparation, execution, and reporting
- independent assurances of integrity.

<http://www.imf.org/external/np/fad/trans/code.htm>

The assessment of fiduciary risk can also utilise the framework for evaluation created by the UK Department for International Development (DFID) that defines good practices for budget processes.

The preparation stage of budget support cooperation must also evaluate the extent to which the partner country's existing national resources are used to finance and implement development programmes. The financing of national programmes can be

Table 2. Good practices for budget processes

Good practice principles	Benchmarks for assessment
A clear set of rules governs the budget process.	<ul style="list-style-type: none"> ● A budget law specifying fiscal management responsibilities is in operation. ● Accounting policies and account code classifications are published and applied.
The budget is comprehensive.	<ul style="list-style-type: none"> ● All general government activities are included in the budget.
The budget supports pro-poor strategies.	<ul style="list-style-type: none"> ● Budget allocations are broadly consistent with any medium term expenditure plans for the sector or for the overall budget.
The budget is a reliable guide to actual expenditure.	<ul style="list-style-type: none"> ● Budget outturn shows a high level of consistency with the budget.
Expenditure within a year is controlled.	<ul style="list-style-type: none"> ● In-year reporting of actual expenditure. Systems operating to control virement, commitments and arrears.
Government carries out procurement in line with principles of value of money and transparency.	<ul style="list-style-type: none"> ● Appropriate use of competitive tendering rules ● Decision-making is recorded and auditable. ● Effective action taken to identify and eliminate corruption.
Reporting of expenditure is timely and accurate.	<ul style="list-style-type: none"> ● Reconciliation of fiscal and bank records is carried out on a routine basis. ● Audited annual accounts are submitted to parliament within the statutory period.
There is effective independent scrutiny of government expenditure.	<ul style="list-style-type: none"> ● Government accounts are independently audited. ● Government agencies are held to account for mismanagement.

Source: Managing Fiduciary Risk When Providing Direct Budget Support, DFIF, March 2002

significantly advanced through efforts including improving the coverage, efficiency and equity of the taxation system. A key issue is also the extent to which the partner country's budgetary policy promotes the private sector and productive activities that support the PRSP objectives. The use of non-public sources of funding (including private investments and remittances from abroad) should also be encouraged and promoted. Among other things, this requires a functioning and efficient financial market the services of which must also reach rural areas and the poorest groups.

The following lists guidelines and codes of conduct created by major international organisations to promote financial accountability and transparency:

A Country Financial Accountability Assessment (CFAA) (World Bank, other donors) is a diagnostic tool used by the World Bank and the borrower country to assess the state of the borrower country's public financial accountability and transparency and analyse the fiduciary risk. In addition, the CFAA enables the borrower country to design and implement capacity-building programmes related to financial management.

<http://www1.worldbank.org/publicsector/cfaa.htm>

A Public Expenditure Review (PER) (World Bank, IMF, partner government, other donors, NGOs) is an analysis of the partner country's fiscal policies. It analyses the level and composition of public expenditure, particularly the extent to which the expenditure policies are pro-poor. The main objective is to make recommendations about the allocation of expenditure between the different sectors.

http://www.worldbank.org/education/economicsec/finance/public/gov_exp.htm

A Country Procurement Assessment Review (CPAR) (World Bank, partner government, other donors) focuses on the transparency and functioning of public sector procurement policies and practices.

<http://www.org.worldbank.org>

A HIPC Expenditure Tracking Assessment (World Bank and IMF) is a tool jointly developed by the BWIs to assess the capacities of the public financial management systems in HIPCs to track poverty-reducing expenditure using fifteen public financial management benchmarks.

<http://www.worldbank.org>

Detailed sectoral assessments are carried out as part of sectoral programmes and in the form of **Public Expenditure Tracking Surveys (PETS)** funded by the World Bank.

<http://www1.worldbank.org/publicsector/pe/trackingsurveys.htm>

The *Code of Good Practices on Fiscal Transparency* (IMF) sets the general principles and practices that public financial management systems should aim at. <http://www.imf.org/external/np/fad/trans/code.htm>. The above also contains a link to a detailed questionnaire on fiscal transparency that can be used to review the transparency of a country's fiscal management system in relation to the Code of Good Practices on Fiscal Transparency.

The annual *Corruption Perceptions Index* (CPI) by Transparency International ranks countries in terms of their corruption situation. The CPI illustrates long-term trends and changes in the countries' corruption situations. Transparency International is an NGO specialised in corruption issues.

www.transparency.org.

When assessing the poverty impacts of development policy reforms included in national poverty reduction strategies, the guidelines and analysis tools developed jointly by international and bilateral donors can be utilised in the analyses. Key poverty impact assessment tools include the following:

Participatory Poverty Assessments (PPA) (World Bank, other donors, partner government, NGOs) are processes that often involve extensive groups of people in the assessment of a country's poverty situation and the changes in it from the perspective of poor and particularly vulnerable people, groups and areas.

A **Poverty and Social Impact Analysis** (PSIA) implies an analysis of the distributional impact of policy reforms or institutional reforms on the poverty situation, rights and participatory opportunities of a country, area or population group. Impacts of changes are assessed with a particular focus on the poorest and/or the most vulnerable people, groups or areas. Links: HEL1267-31 and <http://lnweb18.worldbank.org/ESSD/sdvext.nsf/81ByDocName/PovertySocialImpactAnalysis>

A **Strategic Environmental Assessment** (SEA) (World Bank, other donors, partner government, NGOs) is a process parallel (and mutually supporting) with the PSIA that reviews the environmental impacts of key policies, reforms and programmes.

It is difficult to find an unambiguous tool to verify the risks for a single country. It is, however, possible to form a guiding overall impression of a country's financial management and the fiduciary and other risks related to budget support.

Monitoring stage

The above issues are also related to the monitoring stage. If the basic prerequisites for budget support to the partner country are met, Finland can support programmes that aim at strengthening public sector financial management. Examples of these include supporting the human resource and technical capacities of institutions including parliamentary auditors, national audit offices, statistical offices, tax administrations, Ministries of Finance and other sectoral ministries and key research institutions.

Supporting those who deal with corruption issues, including national anti-corruption commissions, judicial systems and the police advances the management of fiduciary risk. Supporting NGOs acquainted with corruption issues is a means of increasing transparency and accountability in public financial management.

7. CONDITIONALITY

Conditionality means conditions set by the donors that the partner country is required to meet in order to receive support. Conditionality has been found to be most effective when the conditions set are based on a dialogue with the partner country and they are coherent with the partner government's own policies and reform objectives.

In budget support cooperation, conditionality is built on a mutual understanding between the donors and the partner government about the objectives and the monitoring and evaluation of the progress made towards their achievement.



The definition of conditionality is based on the PRSP and its framework of objectives and targets. The PRSP sets the mutually agreed focal areas for government development goals and the use of available resources over a specific period. The PRSP must also steer the formulation of the state Medium Term Expenditure Framework (framework budget) and annual budget.

On the basis of the PRSP framework, the donors agree under the government's leadership upon the Performance Assessment Framework (PAF) or Policy Matrix that will be used to monitor the implementation of the PRSP and the budget funding that supports it. PAF-based monitoring creates a common framework for dialogue about conditionality between the donors and the partner government.

Agreeing on conditionality is a process of national significance. Legislative work and ministerial-level administrative decisions by the partner country are required in order to meet many of the conditions set. Negotiations are often led by the partner country's Ministry of Finance and also involve other ministries as appropriate. Since these negotiations are of such significance, it is useful to stress the significance of the partner country's parliament as a legislative body. Finland underlines transparency at the parliamentary level.

Negotiations regarding budget support usually take place on an annual basis. This increases flexibility but may also make the instrument less predictable and sustained. With regard to conditionality, Finland emphasises a long-term approach and a framework for budget support that extends over several years.

Preparation stage

In the preparation stage of budget support cooperation, it is necessary that the donors analyse the national poverty reduction strategy under the leadership of the partner government and agree upon a Performance Assessment Framework (PAF). The PAF must be based on the priorities set in the PRSP. The PAF defines the assessment criteria and indicators on the basis of which progress in the different sectors can be assessed.

In practice, the creation of a PAF has proven highly challenging because it is hard to reach donor agreement on the criteria and indicators. The partner government may also have difficulties with accepting clear responsibility for leading the formulation of the PAF when the donors attempt to incorporate criteria arising from their own white papers on development policy. Without a common PAF, it is impossible to reach a consensus on the conditions for granting budget support.

Finland participates actively with the other donors in the dialogue with the partner government that aims at reaching a consensus on the criteria and indicators on the basis of which the PAF will be drawn up. The criteria must reflect the focal areas of the PRSP. Finland emphasises the need to minimise the number of criteria included in the PAF and, consequently, the number of conditions set for budget support. According to the Finnish view, however, it is important that the PAF contains, in addition to criteria related to the partner country's economic and social development, those related to political development, provided that these are based on the focal areas of the national poverty reduction strategy. Finland will not set conditions that deviate from the mutually agreed PAF, excluding the general terms and conditions set in the framework agreement between Finland and the partner country that apply to all cooperation between Finland and the partner country.

The creation of parallel monitoring mechanisms for budget support and sectoral programmes should be avoided. For example, if there is a sectoral programme in education supported by the donors underway in the partner country, the budget support monitoring regarding the education sector should utilise the monitoring mechanism of the sectoral programme.

In order to improve monitoring and avoid overlaps, Finland promotes the mutual division of tasks and the definition of responsibilities for monitoring between the donors in accordance with the donors' expertise and sectoral knowledge. For example, Finland can focus on monitoring the progress in the health sector in Mozambique where Finland is also participating in the funding of a sectoral programme in health. Finland should also pay particular attention to the monitoring of the determination of indicators related to the status of girls and women and the related development.

Monitoring stage

The donors and partner countries engage in constant dialogue about the progress made in the implementation of the PRSP and monitor it within the PAF. The jointly adopted PAF is therefore a key tool for assessing the extent to which the partner

country meets the conditions set for it in budget support cooperation. In case the partner country fails to meet the conditions set, i.e. major deviations between the objectives set in the PAF and the actual progress made are detected, dialogue between the donors and the partner government is the primary means of addressing the situation. Major deviations may include the partner country using state budget funds clearly against the plans or abandoning the focal areas of the national poverty reduction strategy. Through an open dialogue, ways of rectifying the situation can be explored, thus securing the continuation of budget support cooperation. Donors should avoid the suspension of budget support funding as a primary measure even if the partner country's development has not progressed as anticipated.

If the partner country is not prepared for an open dialogue and fails to show willingness to commit to its obligations, the donors may jointly consider a gradual decrease in budget support, provided however that the funding is cut within a period agreed upon in advance. The aim should be not to suspend budget support during the current budget year. In all situations, the partner country should be allowed the opportunity to anticipate the decrease in budget funding in the preparation of the next budget.

Finland undertakes to comply with the terms and conditions based on the jointly adopted PAF and participates actively in the dialogue based on the PAF with the partner government. If the donors providing budget support funding jointly find that the partner country is not ready for dialogue and does not show willingness to commit itself to the jointly adopted criteria, Finland may consider the suspension of its budget support funding for the specific case. The decision to suspend funding should be made in consensus with the other donors providing budget support. Freezing budget support during the current budget year can be considered due to events including armed conflict and gross violations of human rights or democracy. In situations where the criteria set for long-term partner countries are not met, Finland will have to consider the suspension of other development cooperation, too.

CONDITIONALITY IN THE PRSP FUNDING BY THE WORLD BANK AND THE IMF

The role of the World Bank and the IMF (BWIs) has become emphasised in the discussion on conditionality as the PRSP and its development objectives also provide a framework for lending by the BWIs in the developing countries. The World Bank and the IMF also take part in the preparation of the PRSPs, their Boards of Executive Directors endorse the PRSPs as a condition for funding, and they monitor the progress made in their implementation within the joint monitoring process. The objective of the BWIs is to increase programme funding comparable with budget support instead of separate project loans. The instruments used by the World Bank are Poverty Reduction Support Credits (PRSC) and Poverty Reduction Support Grants (PRSG), and the IMF provides macroeconomic support through its Poverty Reduction Growth Facility (PRGF). The PRSC, PRSG and PRGF all constitute programme-based funding targeted at the implementation of PRSPs.

The World Bank and the IMF have attempted to clarify their mandates in their PRSP lending and policy dialogue in the developing countries. The World Bank's mandate covers support for the preparation of the PRSP, poverty monitoring, structural and sectoral reforms and the preliminary assessments of their poverty, social and environmental impacts as well as the development of public expenditure, public financial management and procurement practices. The IMF's main areas of responsibility cover issues related to macroeconomic stability and sustainable economic growth. The IMF also monitors the development related to transparency in public financial management.

The conditions for funding set by the BWIs are, at least in principle, based on the poverty reduction strategies, but in practice the BWIs also stress other criteria arising from their own mandates. On the other hand, they avoid setting criteria that are related to the mandate of another organisation. Thereby the World Bank bases its assessment of its lending opportunities on the IMF view of the macroeconomic situation of a potential partner country and, correspondingly, the IMF holds to the World Bank assessment when considering structural and sectoral reforms.

The conditions set by the World Bank and the IMF within their own mandates for PRS lending are also strongly reflected in the budget support cooperation of bilateral donors. In many countries, the World Bank and the IMF have participated actively in the creation of the joint PAF and have been showing increasing preparedness to avoid stipulating separate conditions, which, indeed, is a necessary approach when seeking to strengthen conditionality based on partnership and ownership.

Problematic situations arise particularly when the bilateral donors insist that the primary conditions for their own budget support are that the partner country meets the conditions set by the World Bank for its PRSCs and the partner country has a valid cooperation programme with the IMF. If the IMF cooperation programme goes off-track, the bilateral donor also suspends its funding. The suspension of external budget support is, however, highly problematic for a partner country and may lead into a serious financial crisis with short- and long-term poverty impacts.

On the basis of the PRSP, responsible economic policy can usually be easily set as one of the conditions for budget support as macroeconomic balance and economic growth are vital prerequisites for poverty reduction. Aiming at poverty reduction and effective use of budget support are not, however, directly comparable with the partner government's cooperation with the IMF. It is possible that there is inconsistency between the IMF measures towards macroeconomic stabilisation and the poverty reduction efforts of other donors at least in the short term, which is why the donors should independently assess their ability to continue providing budget support despite IMF support to the partner country going off-track.

It is Finland's view that the fact that the funding programme between the partner country and the IMF goes off-track cannot automatically result in the suspension of budget support funding by bilateral donors. A decision to suspend funding also requires an assessment of the situation by the other donors that, in addition to macroeconomic development, also takes into consideration the other poverty reduction objectives. As a rule, a decision to suspend budget support should only

be made in the event that dialogue with the partner government proves fruitless and the suspension of funding is jointly agreed with the other donors providing budget support.

CONDITIONALITY IN BUDGET SUPPORT COOPERATION CARRIED OUT BY THE EU

The EC is committed to operating within the framework of national poverty reduction strategies and to using them as the starting point for the planning of Community aid programmes. In accordance with the Joint Declaration on Development Policy adopted by the Development Council in 2001, the Community introduced increased recourse to sectoral support and direct budgetary aid. The reason behind this decision was the objective of strengthening ownership by the partner countries and thus stepping up the impact and efficiency of Community aid. The policy of conditionality applied by the Community to budget support reflects the aspiration to strengthen the partner country's ownership role in development policy as well as the accountability of national democratically elected decision-makers in policy implementation. The aim is to change over to results-based conditionality founded on progress made in the implementation of the partner country's PRSP. Progress is assessed using a few key indicators derived from the national poverty reduction strategy.

Budget support granted by the Community within the PRSP framework consists of a fixed tranche and a variable tranche. The fixed tranche covers funding granted in accordance with an all-or-nothing approach based on whether the partner country meets the general conditions set for budget support. The key general condition is the satisfactory implementation of the IMF programme. The variable tranche covers additional funding released as contributions of variable sizes depending on the partner government's performance. Performance is assessed on the basis of objectives and indicators mutually agreed upon in advance. The variable tranche is usually divided into two parts, one related to public financial management and the other to the provision of basic services.

The EC and the BWIs have intensified their cooperation concerning the definitions and procedures regarding the conditionality of budget support. They agree on the fact that the conditions of budget support must be based on the targets set in the national poverty reduction strategies and the related indicators. Their common starting point is that external assistance is more efficient if donor policies, procedures and practices are aligned with the partner country's PRSP processes. Particular attention must be paid to timing the assessment of budget support and the PRSP in accordance with the partner government's own budget process.

8. MONITORING AND EVALUATION OF THE EFFECTIVENESS OF BUDGET SUPPORT



The Finnish development cooperation administration and the partner government are accountable for the effectiveness and impacts of budget support cooperation. On adopting the UN Millennium Declaration, all of the UN member states made a commitment to achieve the Millennium Development Goals (MDGs) by the year 2015. Therefore monitoring the progress made towards reaching the MDGs is the key method of evaluating the effectiveness of cooperation. Progress towards

the MDGs also forms an essential component of the regular reporting to the Parliament of Finland by the Ministry for Foreign Affairs. In the same way, Finland requires reporting by the partner governments to their parliaments and citizens on their country's progress towards the MDGs.

The national poverty reduction strategies can be seen as medium-term (approximately three-year) action plans towards reaching the long-term plan, i.e. the MDGs. Progress made in the implementation of the PRSP creates a foundation for the monitoring and evaluation of the effectiveness of budget support. The resources required for the implementation of the PRSP are defined in the partner country's annual budget and Medium Term Expenditure Framework (MTEF). The implementation of the PRSP, the objectives of the budgetary policy and the reliability of budget implementation therefore have a key role in the monitoring of the effectiveness of budget support.

All of Finland's main partner countries have created national institutions and systems for monitoring the changes in the poverty status. No partner country has yet managed to create a Poverty Monitoring System (PMS) that functions flawlessly. The reliability of the information produced by the partner country's PMS must therefore be studied for each country in which Finland takes part in budget support cooperation. Where necessary, Finland can support the creation and strengthening of a national PMS by efforts including the promotion of cooperation between expert organisations in Finland and the partner countries.

The budget support provided by an individual donor constitutes only a part of the partner country's state budget. Therefore it is not possible to monitor and evaluate the effectiveness of support separately from the entire budget implementation and its development impacts. Evaluation should focus on progress made in the partner government's development efforts as a whole. The monitoring and evaluation of the effectiveness of budget support takes place through mechanisms jointly agreed upon by the donor community and the government and recorded in the JFA/MoU. The indicators describing the evaluation of budget support should also be jointly accepted by all parties to budget support cooperation. Thus dialogue between the donors and the partner government is a key element in the monitoring and evaluation of the effectiveness of budget support.

Monitoring does not focus only on the effectiveness of budgetary support but on the partner country's entire budget practice and the reliability of its state machinery. Policy dialogue with far-reaching effects can be carried out in the name of budget support monitoring. The resourcing and donor cooperation related to budget support monitoring is important.

In accordance with resources, it is beneficial for Finland to participate in development measures and monitoring that advances the country's financial management (financial management development programmes, PER, CFAA, combating corruption) even if Finland has not yet made a decision to participate in providing budget support.

The key elements in the monitoring and evaluation of the effectiveness of budget support are:

- 1) progress made in the implementation of the poverty reduction strategy through the jointly agreed PAF;
- 2) improvement of the poverty monitoring system;
- 3) increased efficiency of the public financial management system, particularly development in budget formulation, implementation and expenditure monitoring;
- 4) openness of dialogue between the partner government and the donor community.

Progress made in the implementation of the poverty reduction strategy through the jointly agreed PAF

The primary objective of budget support is to reduce extensive poverty in the partner country. Poverty is a multidimensional problem, so it is not justifiable to restrict the monitoring and evaluation of support effectiveness only to changes in the rate of population living in absolute income poverty. Poverty monitoring requires monitoring of all of the dimensions of poverty. According to Finland's view, the key issues to be focused on include the following:

- Are poor people's rights and participatory opportunities strengthened, including the disabled and other vulnerable groups? Is their food security, state of health and access to education improving?
- Is equality between women and men improving?
- Is ethnic and political discrimination decreasing?
- Is poor people's vulnerability decreasing?
- Is the distribution of income becoming more equal? Is official social security and community ability to look after their members strengthening?
- Are the outcomes of the changes distributed equally among all population groups, including between women and men?
- Is poverty reduced at the expense of environmental wellbeing or can environmental protection also promote poor people's livelihoods and income generation?

Poverty reduction is, however, a multifaceted and long-term process. Therefore, in addition to the changes in the poverty status, attention must also be paid to the process itself: the implementation of the PRSP and its economic, political and social reforms. Progress made in these creates the conditions for economic growth and poverty reduction in the long term. Reform processes and their target outcomes vary between countries in accordance with the partner country's PRSP target-setting.

Key monitoring targets include:

- the partner country's macroeconomic stability as a prerequisite for sustainable growth and poverty reduction;
- improved living conditions and access to services for the poorest population groups as a result of investments and operational funding financed from the state budget;
- careful preparation, sufficient resourcing and efficient implementation of public sector reforms promoting poverty reduction;
- impacts of reforms supporting poverty reduction particularly on the status of girls and women.

The PAF jointly agreed upon by the donors and the partner government is the key tool in monitoring and evaluating progress made in PRSP implementation. The PAF includes the indicators for reviewing the development of the status of poor population groups and the implementation of reforms supporting poverty reduction included in the PRSP. According to Finland's view, it is important that the evaluation is based on indicators that can be monitored using the partner country's own monitoring mechanisms. Where necessary, Finland is also prepared to support the development and strengthening of the partner country's poverty monitoring systems.

A national poverty monitoring system can include the following five elements¹:

- **Extensive quantitative surveys and censuses:** The base of the national monitoring information is created by censuses carried out at approximately ten-year intervals as well as surveys based on extensive sampling, the main ones including the Household Budget Survey, the Labour Force Survey, the Demographic and Health Survey, the Agricultural Survey, etc. For decades, these relatively expensive surveys have been organised in the developing countries in an uncoordinated manner, whenever a ministry responsible has obtained funding from a donor for a new survey. As part of the creation of national poverty monitoring systems, it is important to achieve coordinated and commensurate sample surveys by various ministries whereby the key questions are included in all surveys, enabling the use of sufficiently frequent time series to detect change trends.
- **Routine administrative information:** In most countries, collecting various types of information is the most important daily task of central and local government officials. Due to lack of coordination, competence and supervision, however, the routine information produced by administration is not always reliable. Unnecessary and overlapping information should be made more reliable and up-to-date. In most countries, this falls under the duties of the Ministry of Local Government and often is the weakest part of the poverty monitoring system.
- **Separate studies:** In addition to extensive sample surveys and routine administrative information, more targeted, often smaller-scale and lighter separate studies are needed. These allow the gathering of data including qualitative information based on poor people's own experiences and views about the same issues on which quantitative information was collected through sample surveys (including Participatory Poverty Assessments, PPA). Qualitative studies are an important means of identifying the most essential issues that can then be subjected to more in-depth studies through sample surveys. Separate studies can also focus on issues hard to grasp with sample surveys (including Public Expenditure Tracking Surveys, PETS).

¹A good practical example is Tanzania's Poverty Monitoring Master Plan and the "popularised" booklet produced on the basis of it. See <http://www.tzonline.org/pdf/povertymonitoringmasterplan.pdf> and http://www.hakikazi.org/pmmp/pmmp_eng.pdf

- **Analysis:** Analysing the data and qualitative information produced by quantitative surveys, administrative information and separate studies is often time-consuming and difficult. Consequently, there is a great need to strengthen and expand the capacities of the partner countries' authorities and other responsible parties. In some countries universities and independent research institutes can also help.
- **Information distribution and feedback systems:** Gathering and analysing statistical and other monitoring information is not a value in itself. Instead, information is gathered in order to obtain feedback about the impacts of policy reforms and budget funding on the poverty status and the lives of poor people, population groups and areas. Monitoring information often needs to be popularised – edited into a form that is more concise and easier to understand for it to be useful for the politicians, civil servants, NGO representatives and foreign partners taking part in the PRSP process. The media and solutions based on new technology (including the Internet) can have a major role in ensuring as extensive access as possible to poverty monitoring information by all those concerned. Citizens must also be provided with the opportunity to provide feedback and, where necessary, criticise the information produced by the monitoring system and call for corrections.

On a case-by-case basis, Finland can participate in supporting the development of all of the components of a poverty monitoring system. The expert organisations of Finnish public administration have a lot to give to this work.

Increased efficiency of the public financial management mechanism, particularly development in budget formulation, implementation and expenditure monitoring

The PRSP should include an assessment of the extent to which the state budget funds should be allocated to PRSP implementation in order to reach the partner country's development objectives. In order to assess the effectiveness of budget support, the priorities of the partner country's annual budget and Medium Term Expenditure Framework (MTEF) must be harmonised with the priorities set in the PRSP.

In addition to transparent budgetary policies and processes that support poverty reduction, monitoring and evaluation must pay attention to the implementation of reforms towards more efficient public financial management mechanisms in accordance with the PRSP. The key reforms are those that strengthen the state budget implementation mechanisms and expenditure monitoring. Key issues to be monitored and evaluated include:

- annual budget and framework budget allocations in accordance with the PRSP priorities;
- efficiency and transparency of budget implementation, channelling of funds from the Ministry of Finance to the sectoral ministries and the regional level;
- reliability of expenditure monitoring in order to prevent misuse of public funds.

It is likely that there are components in the partner country's public financial management and reporting system that do not totally match the donors' ideas of efficiency and reliability. Weaknesses in financial management and reporting do not, however, as such prevent the provision of budget support. Instead, the donors should take part in the development of these in the partner country. When evaluating the effectiveness of budget support, attention must also be paid to the partner country's preparedness to implement the jointly agreed reforms of financial management and reporting systems.

Openness of dialogue between the partner government and the donor community

Open dialogue between the partner government and the donors providing budget support is a key element in the monitoring and evaluation of the effectiveness of budget support. The principles of policy dialogue are recorded in the JFA or MoU, which specifies the obligations of the signatories as well as the jointly agreed monitoring and evaluation mechanisms. Intensified dialogue and efforts towards increased openness and predictability are indicators of successful budget support cooperation. This requires that compliance with the mutually agreed obligations is also monitored with regard to donor practices and procedures.

9. REPORTING ON THE EFFECTIVENESS TO FINNISH STAKEHOLDER GROUPS

Finland monitors the effectiveness of budget support as part of the partner country's own PRSP planning and monitoring process. Reporting to stakeholder groups in Finland is based on this process and its schedules. The key elements in the process include the following:

- The partner government sets the annual targets using the monitoring indicators (including PAF indicators). In the PRSP, the targets are often set for the entire period (e.g. 3 years). Annual targets need to be set for the key indicators to create a basis for implementation and annual monitoring.
- The partner government compiles an Annual Progress Report (APR) by comparing the target values and the progress made concerning the key targets. The monitoring of results achieved is important, not descriptions of implementation. The primary purpose of the APR should be national reporting: the government must be accountable to parliament and the citizens for progress in accordance with the plans in poverty reduction.
- The partner government revises the priorities and targets for the coming years by utilising the monitoring information.

These elements also form the basis for the dialogue between the government and the donors and for the monitoring of effectiveness. When the donors use the PRSP targets as a basis for conditionality, agreeing on the annual targets also means agreeing on the annual conditions, and the APR acts as the most important instrument that sets off the consequences of conditionality.

Finland supports the close integration of the PRSP planning and monitoring process into the partner country's budgetary process in order to maximise the poverty reduction effects. Finland emphasises the participation of the partner country's parliament and civil society in the PRS planning and monitoring process and an open discussion about the budget focal areas. The partner government must schedule the monitoring and planning in a manner appropriate for the budgetary process. The timing of the APR should allow the use of the previous budget year's basic economic and statistical information. On the other hand, the report should be available early enough to make sure that information about progress steers both medium-term and annual planning. When these conditions are met, Finland seeks predictability of its own disbursements by making multiyear disbursement commitments and openly informing about the criteria guiding its own decision-making.

In order to make reporting to the Finnish stakeholders about the effectiveness of budget support cooperation more efficient and to utilise the lessons learned from the cooperation, Finland also endeavours to development the evaluation practices regarding its own activities.

10. AGREEMENT PRACTICES IN BUDGET SUPPORT COOPERATION

The framework agreements on development cooperation signed with long-term partner countries form the basis for cooperation between Finland and the partner country and also cover budget support cooperation. In addition, two other documents are negotiated and signed regarding budget support cooperation: the Joint Financing Arrangement (JFA) or Memorandum of Understanding (MoU) and the bilateral agreement between Finland and the partner country.



JOINT FINANCING ARRANGEMENT (JFA) OR MEMORANDUM OF UNDERSTANDING (MoU)

Basis for the JFA

Budget support cooperation is built on the efforts by the partner government and an extensive group of donors to implement the poverty reduction strategy, utilising the partner country's own planning and implementation systems while promoting the coordination and harmonisation of foreign aid. The cooperation is guided by the JFA negotiated between the donors and the partner country that specifies issues including the goals of the cooperation as well as the mutually agreed implementation, monitoring and reporting practices. Defining the rights and obligations of the signatories, this document creates the foundation for dialogue between the donors and the partner country.

The starting point for the planning, implementation, monitoring and reporting practices agreed upon in the JFA should be the partner country's own budgetary cycle. The national monitoring process regarding the implementation of the poverty reduction strategy and the monitoring schedule are also linked with the budgetary cycle. The idea is to mutually agree on as many issues concerning the administration of the funding as possible, thus avoiding the creation of parallel practices burdening the partner country. Donors should minimise the setting of supplementary conditions and/or provisions.

Contents of the JFA

The following three documents guiding the preparation of JFAs have been produced by the so-called Nordic Plus group (the Nordic countries, the Netherlands, Ireland, the UK and Canada): *Checklist and preparation process for a joint financing arrangement* (Appendix 2), *Joint financing arrangements* (Appendix 3) and *Template for Joint Financing Arrangements* (Appendix 4). These documents can be utilised in various joint financing situations, including budget support.

The Template for Joint Financing Arrangements (hereafter 'JFA template') is intended to be a flexible tool aiming at simplifying the drawing up of the legal document required in joint financing and at promoting the harmonisation of the conditions and procedures related to the implementation of joint financing. The template is used to initiate discussions and as a basis for the negotiations with the partner country. In practice, the contents of the document will vary depending on the extent to which the partner country's own administrative rules and procedures can be applied. The special needs specific to the country and the case will be taken into consideration.

The JFA template covers issues including the following:

- ✿ goals and scope of budget support
- responsibilities of the signatories
- administrative structure and decision-making procedure, including the dialogue mechanism between the donors and the partner government
- budget support disbursement practices
- procurements
- reporting and monitoring
- review and evaluation
- auditing
- corruption
- stipulations regarding suspension and termination of budget support cooperation
- donor accession.

The guide to JFAs also refers to "delegated cooperation" (lead donor/silent partners). Finland is yet to define its view on this form of cooperation. The legal issues associated with this have not been clarified, either.

The JFA negotiation process

The partner government and all of the donors considering participation in the budget support funding take part in negotiating the JFA. This is a demanding and time-consuming process.

Finland participates actively in the negotiations and seeks to ensure that the document defines unambiguously and comprehensively the goals, implementation, monitoring and reporting mechanisms regarding the cooperation as well as the

situations in which budget support cooperation may be suspended or terminated. It is of utmost importance that the obligations and procedures specified in the JFA are as compatible with the partner country's national procedures as possible.

The Finnish diplomatic mission participates in the preparation of the JFA taking place in the country, using the JFA template accepted by Finland as the starting point. Whenever it is necessary to approach the Ministry, sending draft texts alone is not enough. Instead, the mission should draw up a short account of the preceding stages of negotiation and the issues that have proven difficult, any differing opinions by other donors and the embassy's own view. This is necessary in order to obtain an overall impression and to assess which issues Finland should adhere to in the negotiations and the ones that it should rather drop in order to achieve harmonisation.

BILATERAL AGREEMENT ON BUDGET SUPPORT COOPERATION

The final legal commitment to budget support cooperation takes place through the bilateral agreement that supplements the JFA. It specifies the amount of Finland's contribution, the payment schedule and any special provisions set by Finland (e.g. Finland's right to conduct its own audits, supplementary provisions regarding the suspension of the financing, the right to claim repayment of misused funds).

The contents of the bilateral agreement are ultimately determined by the JFA drawn up for the case in question. In case of any inconsistency between the two documents, the bilateral agreement will prevail. A template for a bilateral agreement supplementing the JFA prepared as Nordic Plus cooperation can be found in Appendix 5.

If budget support is exceptionally granted to a country that has not signed a framework agreement on development cooperation with Finland, the legal experts of the Ministry's Department for Development Policy (KEO-12) should be consulted concerning the contents of the bilateral agreement and the acceptance procedure regarding the documents discussed below.

ACCEPTANCE AND SIGNING OF DOCUMENTS

JFAs and bilateral agreements signed with long-term partner countries are accepted by the Ministry, i.e. the Director General of the department handling the issue. The Director General also personally signs the agreement or authorises for example the Head of the Embassy to sign it (Section 86 of the Rules of Procedure of the Ministry for Foreign Affairs). The JFA is signed under the Ministry's name and the bilateral agreement is traditionally made in the name of the Government of Finland.

There are separate instructions regarding process of granting funds and acquiring authorisations to sign concerning development cooperation projects. The JFA and the bilateral agreement cannot be signed before a decision has been made to grant funds for the purpose.

11. HUMAN RESOURCES AND COMPETENCE



Budget support is a new form of cooperation in Finnish development cooperation. According to Finland's development policy, the significance of budget support cooperation will grow in our long-term partner countries in the coming years. The period of transition is demanding for human resources. The personnel will be simultaneously administering both traditional projects and programmes based on joint financing (including budget support) that involve procedures which require developing and

learning new things. This resource challenge must be taken into account when decisions are made about participating in budget support.

Personnel commitment to a change will not take place automatically. Instead, it requires systematic input towards justifying and informing about the new form of cooperation. The leadership's role in carrying out the change is critical. It is the leadership's task to motivate the personnel to operate in a new manner.

A new operational manner requires new competence from the personnel of foreign affairs administration both at the Ministry in Helsinki and the Finnish missions abroad. The competence challenge is not, however, only limited to the personnel of the Ministry and the missions but also applies more widely to the stakeholder groups of development policy and development cooperation. In Finland, these include a broad group of actors who have a role in the steering and monitoring of the development policy or supporting the implementation of development cooperation (including the members of the Development Policy Committee, members of parliament, NGOs, research institutes, consultants, Finnish authorities). Many of the Finnish authorities also have a key role in the efforts to support the partner countries in the development of their financial management, poverty monitoring mechanisms and reporting systems (including the Ministry of Finance, the National Audit Office, Statistics Finland, tax administration, sectoral ministries). Accordingly, the expansion of budget support cooperation calls for intensified cooperation with the Ministry for Foreign Affairs and the other Finnish authorities. Good knowledge of the Finnish competence helps to agree on the division of tasks between the donors and focus the Finnish input on our areas of strength.

The starting point for the management of the budget support instrument is competence regarding the basic concepts and their systematic use. Another starting point is outlining the processes and decision-making related to budget support both in the partner country and in the Ministry's administration.

The key competence areas when participating in and influencing through budget support cooperation are:

- poverty analysis and the use and development of poverty monitoring mechanisms and systems;
- the partner countries' budgetary processes and public financial management;
- macro-level policy analyses and intersectoral connections;
- acting and influencing as a member of the international community.

DEVELOPING THE COMPETENCE OF THE PERSONNEL OF THE MINISTRY FOR FOREIGN AFFAIRS

Training

Introductory training will be organised regarding these Guidelines. In the longer term, budget support issues must be integrated into basic personnel training and supplementary professional training. The civil servants' basic competence is created through the Training Course on International Affairs (KAVAKU), and the course programme will include a larger component on budget support issues. A more detailed introduction to the budget support instrument will be incorporated into the induction training in development policy and development cooperation for civil servants whose tasks are related to these issues in a regional department, the Department for Global Affairs or the Department for Development Policy. These induction sessions will take place twice or three times a year as part of the training calendar.

Teamwork

The Programme Cooperation Team of the Ministry for Foreign Affairs acts as the learning environment for civil servants and advisers. The Team agenda includes proposals and discussions about new reports, meetings and other issues related to budget support. The Ministry's Country Teams also act as tools for competence development as they enable a detailed look into each country's budget support arrangement and the challenges presented by it. The most experienced colleagues act as expert resources in the Teams.

Joint donor PRSP training

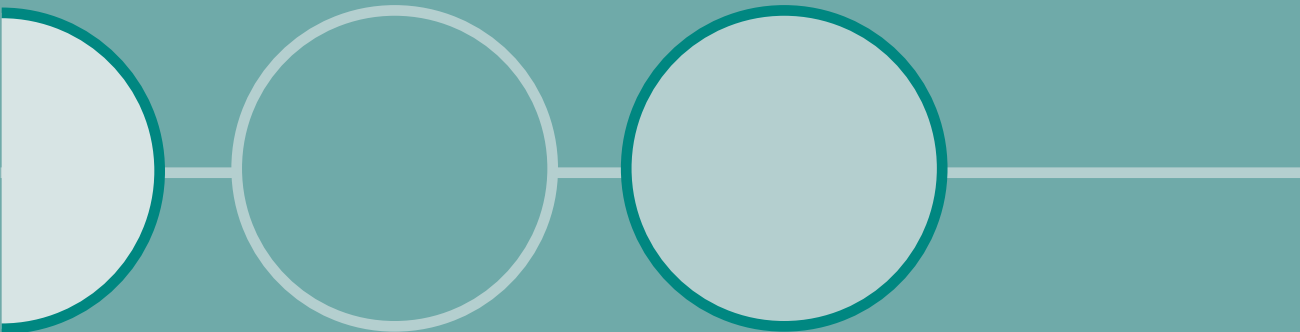
Budget support issues are dealt with as part of the joint PRSP training for likeminded donors. Personnel of Finnish diplomatic missions will have a chance to participate in the joint training at least during 2004.

DEVELOPING STAKEHOLDER COMPETENCE

The changeover to programme-based support also results in a change in the activities, competence needs and requirements of Finnish providers of support services, consultants, authorities, public expert organisations and NGOs. It is in the interests of the Ministry that they are kept up with the development. In the new operating environment, the Ministry should invest in the competence of the Finnish stakeholders. Resources required for participation in budget support can in such cases also be obtained by outsourcing certain functions to experts outside the Ministry (e.g. those related to the preparation or monitoring of budget support). Even the most active information distribution alone cannot guarantee the necessary competence resources. Actors should be included in the work of the country and sectoral teams as well as the Ministry's own training events, and separate training events should also be organised. Programme monitoring and annual meetings are excellent and concrete learning events.

There is need for competence in poverty analysis, macro-level issues and sectoral issues. Advisers are a natural group to create and maintain networks related to sectoral and thematic issues.

Appendices



Appendix 1

Actors	Decision-in-Principle by the MFA about budget support		
	Cooperation initiative	Preparation in principle at the MFA	Internal decision by MFA to grant support - mandate for bilateral consultations - decision about targeting commitment authorisations
Partner country	Initiative about budget support		
Regional department		+ prepares	+ proposes
Finnish mission		+ prepares	
Development Policy Steering Committee		+ is kept informed	+ processing of mandate for bilateral consultations
Project meeting			
Unit for Sectoral Policy		+ gives a statement	
Minister for Foreign Trade and Development			+ accepts the mandate for bilateral consultations, accepts the proposal for decision about targeting commitment authorisations
Development Policy Committee, civil society			+ consulted (mandate for bilateral negotiations)
Inclusion of budget support in the financial planning of development cooperation	+ into budget proposal appropriations / commitment authorisations	+ into budget proposal appropriations / commitment authorisations	+ in case of a favourable decision, into the decision about targeting commitment authorisations

Consultations with the partner country	Technical preparation with the partner country and the other donors		Implementation and monitoring
Bilateral consultations	Technical preparation (how budget support will be provided, agreements)	Decision by MFA about technical implementation and granting of funds	First payment and launch of monitoring
+ preparation and negotiations	+ prepares		+ primary responsibility for monitoring and production of monitoring information
+ preparation and negotiations		+ accepts the agreement	+ makes payments, ensures monitoring
+ preparation and negotiations	+ prepares		+ primary responsibility for participation in dialogue
	+ evaluates, recommends further preparation (first handling)	+ evaluates, recommends acceptance (second handling)	+ supports monitoring
+ supports the preparation	+ statement to the project meeting	+ statement to the project meeting	
		+ final decision to grant funds	
+ in case of a favourable decision, into the decision about targeting commitment authorisations	+ commitment authorisations + appropriations	+ commitment authorisations + appropriations	

Checklist and preparation process for a Joint Financing Arrangement (JFA)

1. Plan and structure of the process towards a JFA

Agreement on a JFA is not easily achieved. Often many different parties are involved in the negotiations leading up to a JFA. These parties have often different qualities, different capacities and different means of influence. In order to achieve an acceptable JFA without too high costs, it is recommended to plan and structure the process regarding the hurdles to be overcome before starting the negotiations on JFAs. In practice a well planned and structured harmonisation process does prevent a lot of cumbersome discussions and frustrations of the involved parties. In summary, a well managed process will enhance the quality of the final product (agreement on and implementation of the JFA).

It should be kept in mind that the negotiation and agreement on the JFA itself are just two steps at the end of a sequencing of ten phases (the eight and ninth one). It is also important to understand that after reaching agreement on the JFA the actual implementation of the harmonised programme still has to be started. The sequencing of the ten phases is a subdivision of the three main components of harmonisation: information sharing, strategic co-operation and operational harmonisation. Application of this sequencing is important, because parties involved will recognise the current status of the process, and can agree on (plan for) the appropriate next steps and action. Appropriate in the sense, for example, that the JFA development negotiations will only be successful if the underlying agreement on policies, key interventions and financial modalities exists.

The ten phases, which apply to all parties involved (partner government and donors) are:

- Information sharing:

1. Communicating positions and programmes;
2. Setting up institutions and forums to exchange information in a regular matter;
3. Understanding of each others positions & programmes.

- Strategic co-operation:

4. Actively building consensus on policies and key interventions (using established) institutions and forums, mentioned under 2);
5. Agreement on policies and key interventions ;
6. Agreement on division of tasks;

- Operational harmonisation:

7. Agreement on financial modalities, common intervention procedures and application of such procedures;
8. Negotiating a JFA;
9. Agreement on a JFA and the bilateral arrangements;
10. Joint implementation of the JFA.

When setting up a time schedule for the preparation of a JFA it must be taken into account that donors may have different internal procedures for involvement of headquarters and country offices (e.g. embassies) in the different phases. While some country offices only may have to involve headquarters at phase 6 others may have to involve them at phase 1 and continuously through the phases. Sufficient time must be set aside for this.

2. Checklist

Considerations

- Definition of signatories;
- Reference to request from recipient;
- Brief description of essential principles for collaboration;

Paragraph 1: Goals of the Program and scope of the JFA

- Reference to National Plan/Program Document including title and date;
- Inclusion of a goal hierarchy with indicators or a reference to an attachment with an LFA matrix;
- Reference to bilateral arrangements/agreements;

Paragraph 2: Responsibilities and representation

- Joint responsibilities;
- Recipients' responsibilities;
- Donors' responsibilities;
- Lead donor's responsibilities;
- Representation;

Paragraph 3: Contributions

- Donor 'pledge';
- Interest/ non-interest bearing Forex account;
- Rate of exchange;

Paragraph 4: Consultations, decision making process

- types of meetings;
- mandate of meetings;
- frequency and timing of meetings;
- participants;
- who should call and chair the meetings;
- who should draft the agreed minutes within what deadline;
- what type of documents should be delivered to the participants and within what deadline before the meeting;

Paragraph 5: Organisational structure

- types: e.g. steering committees;
- reference to attached terms of reference for each type of committee/unit with mandate;
- participants;

Paragraph 6: Disbursements

- required documentation;
- procedures of approval and transfer of funds;
- disbursement schedule;

Paragraph 7: Procurement

- choice of procurement system;
- who will be responsible for the procurement;
- what type of control from the donors is necessary;
- technical assistance needs;
- notifications;

Paragraph 8: Reporting

- types;
- format and content;
- frequency and deadline;
- procedures for approval;

Paragraph 9: Review and evaluation

- types;
- frequency;
- participation;

Paragraph 10: Audit

- who will be the auditor;
- type of audit e.g. audit of financial records, value for money audit;
- frequency;
- how will the costs be covered;

Paragraph 11: Non-compliance, force majeure

- what type of non compliance will be relevant;
- what type of sanctions;

Paragraph 12: Corruption

Paragraph 13: Modifications, donor accession, withdrawal

- procedure for amendment of the JFA;
- procedure for donor accession;
- procedure for donor withdrawal;

Paragraph 14: Dispute settlement

- procedure for dispute settlement;

Paragraph 15: Entry into effect

- procedures for coming into effect;

Signature

- One original for each signatory partner.

Appendix 3

February 20, 2004

Joint financing arrangements

Netherlands Ministry of Foreign Affairs

Prepared by the Civil Law Section of the Legal Department, in close consultation with other Departments and with representatives of the Canadian International Development Agency (CIDA), the Ministry of Foreign Affairs of Denmark, the Ministry for Foreign Affairs of Finland, Development Cooperation Ireland, Norwegian Agency for Development Cooperation (NORAD), Swedish International Development Cooperation Agency (SIDA) and the Department for International Development of the United Kingdom (DFID)

Guide for negotiating Joint Financing Arrangements in support of the Sector Wide Approach (SWAp)

Section A) : Introductory comments

1. This Guide has been designed to help aid practitioners who are involved in the negotiation of joint financing arrangements/agreements (hereafter 'JFAs') which includes the pooling of funds and budget support to make sound judgements on the arrangements required and to give practical background information on the use of the accompanying corresponding checklist and template for JFAs. The checklist, template and Guide present the main items that are normally included in JFAs under which multiple donors provide (often multi-year) financial assistance to support the national plan/program/PRSP of a partner government. An outline is provided of the usual structure of these arrangements, the way items are grouped into paragraphs¹, and elaborates on how to operationalize the principles of harmonisation and alignment of donor assistance. Use of the JFA template is not obligatory or prescriptive but intended as a practical tool that needs to be adjusted to the specific financing modality, the local circumstances and the institutional capacity of the partner government.
2. The checklist, template for JFAs and Guide, have been agreed upon by representatives of the following countries: Canada, Denmark, Finland, Iceland, Ireland, the Netherlands, Norway, Sweden and the UK. However, it should be noted that some donors have made reservations with regard to some of the subjects (e.g. interest, procurement, audit, the issue of applying sanction measures in case of misuse of funds) in view of their statutory regulations and policies. It was agreed that donor-specific reservations and requirements should never be included in the JFA but should be covered in the bilateral arrangements. For the sake of transparency, such reservations could be made visible by listing these in an annex to the JFA. Of course, the checklist, template and Guide can also be used for drafting JFAs involving other donors (and multilateral organisations).
3. Harmonisation and alignment are major underlying principles essential to the design of JFAs. While 'the ideal practice' would be to attain full alignment of the donor support with the budgetary and accountability system and legislation of the partner government, actual practice shows that full alignment can often not (yet) be realised and a more gradual approach is taken in order to contain and manage risks. In particular, in case of budget support to countries whose budgetary and accountability systems and legislation do not (fully) meet the minimum international accepted standards, it will be required to include provisions in JFAs on such safeguards as additional reporting or parallel systems on other specific items to mitigate and manage donor risks. As (donor) risk tolerance and local circumstances differ in each country, a variety of financing

¹The numbering of paragraphs and subsections in the Guide and the template are for ease of reference. It should be noted that the numbering in the Guide and template do not (fully) coincide with each other.

modalities have been developed over time with differentiated degrees of alignment. Annex 1 to this Guide presents an outline of criteria that may help donors involved in concluding joint financing arrangements to determine the degree of alignment they want to achieve.

4. Where relevant, this Guide and accompanying model JFA distinguish within each section between 'aligned' support versus 'non-aligned' support. It should be noted that the degree of alignment may change over the timespan of the PRSP/National Plan that is supported by the donors. This may necessitate interim amendments of JFAs in order to reflect an evolving process of alignment with the budget and accountability systems and legislation of the partner government.
5. This Guide takes into account a number of 'good practices between donors and partner government' as described in the DAC Guidelines and Reference Series 'Harmonising Donor Practices for Effective Aid Delivery' (hereafter referred to as '2003 DAC/OECD Good Practices Papers', or 'GPP')². These 'good practices', which are directed at setting up effective frameworks for aid coordination and reducing the administrative burden and costs for the partner government, should be taken into account as much as possible by the partners in development cooperation when negotiating JFAs. References are made to GPP page numbers throughout the text.
6. JFAs establish a framework for co-ordinating donor support and cooperation with a partner government³. These arrangements are the expression of the desire of the signatories to undertake support jointly, to work within one set of procedures applicable to all signatories, to monitor and measure results at the outcome end and to have a dialogue fed by the results of the monitoring. JFAs are usually complemented by bilateral arrangements/agreements concluded by each participating donor with the partner government.
7. When considering a JFA, partners under the arrangement should be clear on the purpose of that undertaking, its added value, the potential risks and a common risk management and mitigation strategy. Joint financing should produce an added value over bilateral financing by individual donors in as much as it results in reduced transaction costs for management and monitoring, greater program efficiencies for all parties involved and avoidance of duplication of effort by donors and partner governments alike. The signatories to the JFA can benefit from jointly agreed objectives and results, more focussed dialogue and prevention of 'island approaches' to development as well as benefit from the synergy of pooling resources.
8. The JFA can be modified to accommodate situations where one donor is elected by the other donors to the JFA to act as 'lead donor' and to represent them in the relationship with the partner government⁴. Various models for such delegated cooperation have been developed in practice. The most common model for delegated cooperation consists of a JFA signed by all donors and (often) the partner government with complementary bilateral arrangements concluded between the lead donor and each other signatory donor. While the JFA represents the framework for cooperation, covering all the major items described in this Guide including the delegation of tasks to the lead donor, the bilateral arrangements serve as the instruments for channelling the donor funds through the lead donor.

Such an approach would affect the accountability framework significantly and is not reflected in the present Guide, checklist and template. Usually a donor that has a comparative advantage in a recipient country, sector or specific tasks (e.g. monitoring) will qualify to act as a 'lead donor'. Delegating authority to a lead donor may lead to substantial savings in time and costs for donors and partner government. GPP chapter 6 describes the 'good practices' with regard to delegated cooperation.

² The DAC Guidelines and Reference Series 'Harmonising Donor Practices for Effective Aid Delivery' can be found on <http://www.oecd.org>

³ Extensive discussions were held among the donors involved in the development of this Guide and the template on the status of Memoranda of Understanding (MoU) in general. Consensus was reached not to use the term 'MoU' as it gives rise to differing interpretations as regards the formal question whether or not MoUs should be considered as legally binding. It was furthermore agreed that parties involved in drafting JFAs should not use any 'treaty language'.

⁴ It should be noted that not all donors mentioned in section 2 of this paragraph have taken yet an internal decision whether or not they are/will be allowed to participate in delegated cooperation with other bilaterals.

9. As regards the template for JFAs, it should be emphasised at the outset that the framework articulated here is intended to be applied flexibly at the country level: donor representatives, negotiating arrangements on joint financing, are not tied to the content or language used in the template. Checklist, template and Guide are versatile tools and reference materials that could be shared with the partner government and other donors and used as a starting point for discussing the necessary provisions to be agreed upon in a JFA. The checklist should be used as a quick reference to the recommended content of JFAs.

The items included in the template coincide with those in the other two documents and should be tailored to the specific modality of joint financing and the prevailing circumstances. The precise provisions, content and language of paragraphs to be used in specific cases depend, inter alia, on the modality of joint financing chosen, the local circumstances and the institutional structures and capacity of the (public administration of the) recipient government.

10. Finally, it should be noted that the Checklist, template for JFAs and Guide are dynamic tools which will be evaluated from time to time. This may result in periodic updates on the basis of lessons learned and developments related to SWAp and PRSP processes in general. The papers will be disseminated through appropriate channels (e.g. the OECD/DAC Working Party on Aid Effectiveness and Aid Practices and the Strategic Partnership with Africa (SPA)) and will be posted on the extranet site of the Learning Experience Network of Program Based Approaches (LENPA), in order to reach as wide a group of aid practitioners as possible.

Section B) : Items to be addressed in Joint Financing Arrangements⁵

Introductory Paragraphs: Considerations

11. JFAs usually open with an 'introduction' specifying the signatories to the JFA. Signatories to the JFA should be represented at the ministerial/agency level if possible, preferably not on 'government' level⁶.

The group of donors may be referred to in JFAs as 'Signatory Partners' (hereafter 'SPs'), 'Development Partners', 'Pooled Fund Partners', 'the Donor Group' or simply as 'the Donors' though other names are possible as well. The group of donors and the partner government are jointly referred to as 'the signatories'.

12. The introductory paragraphs of the JFA (often presented in preambular fashion, using phrases such as 'Considering...' or 'Whereas...') usually refer to a request of the partner government to the donors for support of its national plan/ PRSP, and provide a place for statements of a more general nature regarding the underlying principles for collaboration. Unless considered strictly necessary, the signatories should endeavour to keep the introductory paragraphs as brief as possible and refrain from including too many policy statements.
13. 'Principles' often referred to include:
- good governance, democratic principles, respect for human rights and the rule of law. These fundamental principles are the basic conditions for cooperation and support. Violation of these principles may have consequences for the continuation of the donor support to the national plan/program;
 - commitment to the concept of harmonisation as a step towards reducing transaction costs and increasing donor coordination;
 - donor commitment to the principles of consultation, sharing of information amongst signatories, coherent communication towards the partner government, transparent and predictable action, etc;
 - a statement saying that JFAs are open to new donors that are interested in joining.

⁵ Presented in the sequence of presentation in the JFA template and checklist

⁶ This might vary per country depending on the statutory provisions on delegation of authority.

Finally, signatories who wish to give more emphasis to other 'guiding principles' on harmonisation, may opt to present these principles in a separate paragraph of the JFA.

Paragraph 1 (Goals of the Program and scope of the JFA)

14. The first paragraph usually refers to the policy framework document(s) of the country, often the PRSP. This policy framework (hereafter referred to as 'the national plan/program') usually describes the long- (and medium-) term goals and objectives, and the anticipated timespan. This national plan/program document should not be annexed to the JFA since these documents are often subject to regular updating.
15. Provision could be included in this paragraph indicating the scope and purpose of the JFA (usually described in terms of the framework for cooperation and coordination, containing the provisions, conditions and procedures that govern the support activities of the participating donors), as well as its duration.
16. Reference should be made to the subsidiary bilateral arrangements which each donor will conclude with the partner government, and their significance as financial transfer instrument. The hierarchy between the bilateral arrangements and the JFA should be clear. Usually, donors prefer to give legal precedence to the content of their bilateral arrangements as specific items required by their domestic statutory framework may not be covered in the common JFA. However, donors who embrace the principles of harmonisation should express their intention to establish funding arrangements in their bilateral arrangements that are compatible with, and in the spirit of, the provisions of the JFA and should strive as much as possible to avoid setting any provisions that deviate from the provisions jointly decided upon in the JFA. Though some donors need to retain in their own bilateral arrangement the right to audit, monitor and evaluate under their respective domestic statutory framework, there is an understanding that donors will strive not to undertake unilateral action. However, in case they are compelled to take such action, they should invite the other donors to join⁷.
17. GPP28 states that where donors are funding the same operations, they should use the same performance indicators. Reference should be made in this regard to the monitoring and review framework (often referred to as 'the Performance Assessment Framework', or 'PAF'), or other relevant documents which should include the indicators for measuring progress towards the achievement of the outputs defined in the national plan/program, and the timeframe for reaching these outputs. The PAF often includes a framework for performance measurement in public financial management. In the interest of harmonisation, provisions could be included in this paragraph stating that the donors will perform joint assessments of the overall performance reported by the partner government, on the basis of which joint decisions will be taken on further financing of the plan/program.
18. Signatories should seek to decide on common performance indicators that are simple, measurable, prioritised, easily verifiable and related to longer-term goals. The PAF, including a matrix of indicators, could be included in the body of the JFA, or be annexed to the JFA⁸. If beforehand it is deemed probable that these indicators will be changed (significantly) during the implementation of the national plan/program, it would be preferable not to annex the matrix to the JFA; instead, a reference to the matrix will suffice. The meeting referred to in paragraph 4 could be given the mandate to decide on amending the indicators. The amended indicators could be annexed to the Agreed Minutes of such meeting.

⁷ It is common understanding that such unilateral actions would be covered through separate bilateral funding not covered under the JFA.

⁸ An agreed set of indicators to feed the dialogue between donor and recipient partners is key to predictability and transparency. It will help to strengthen the focus much stronger on output and outcome of donor interventions and thereby support the shift away from input-based dialogue towards outcome triggered dialogue. Indicators, however, are often used as cutoff points. A proper balance between indicators that help to monitor the performance of agreed actions (process indicators) and those helping to monitor the achievement of results (result indicators) is necessary to prevent assistance from becoming a mechanical routine.

Paragraph 2 (Responsibilities, representation)

19. A description of the specific accountabilities and responsibilities of the partner government and the roles and commitments of the donors may be included, in more general terms or in detail, whatever is most appropriate and deemed necessary. In the case of delegated cooperation, the roles and responsibilities of the lead donor should be clearly defined⁹. Alternatively, the description of the respective roles and responsibilities can be split up into separate sections.
20. In any case, JFAs should state that the partner government is solely responsible for implementing the plan/program/PRSP and accounting for the use of funds. This entails that the donors do not bear any responsibility or liability to any third party for activities administered by the partner government and carried out pursuant to the JFA.
21. The concrete tasks and responsibilities of the central and/or sectoral partner government authorities with regard to the implementation could be specified in this paragraph. If appropriate, responsibilities and undertakings may be specified with regard to specific preconditions that should be met by the partner government and/or the donors e.g. to ensure efficient implementation of the plan/program (such as specific technical assistance needs, institutional strengthening of government implementation structures, specific conditions directed to improvement of public financial management). It should be ensured that the partner government authorities assigned to these tasks and responsibilities are competent and capable to carrying them out.
22. Information sharing and transparent communication are responsibilities that rest on all signatories and are considered critical to improving coordination and enhancing the efficiency of support. GPP15 states that the donors and partner government should share information on aid flows, planned and ongoing activities, procedures, reports and results of monitoring and evaluation. A provision of this nature, reflecting the undertakings of signatories to uphold this principle, could be included in the JFA.
23. Other responsibilities could be highlighted, depending e.g. on the plan/program supported, the modality of financing and the level of harmonisation and alignment to national systems. Also, some or all of the 'guiding principles' set out in the introduction may be elaborated on in the context of concrete tasks and responsibilities.
24. A separate section on representation could be included in this paragraph, in particular if the JFA has been concluded on governmental level. For most partner governments the Ministry of Finance will be the formal representative, while the sectoral ministries will be responsible for the day-to-day operations. The representatives of the Donors are normally stated in the respective bilateral arrangements/agreements.

Paragraph 3 (Contributions)

25. JFAs normally do not contain a precise indication of the value of the contributions of the respective signatory donors; at the most they contain a rough indication (e.g. the number of years) of each donor's anticipated support. The precise (multiyear) contributions of the donors are usually specified in the bilateral arrangements, and require for some donors formal parliamentary approval.
26. If at all possible, the donors should seek to settle on a common currency for their contributions. This will avoid the risk of donors having to substantially alter the level of their contribution due to exchange rate fluctuations¹⁰.

⁹ An outline of 'good practices' for delegated cooperation is given in chapter 6, GPP.

¹⁰ However, some donors can only commit themselves in their national currency, e.g. euros

27. One subparagraph may also include specific provisions on the exchange of foreign into local currency, including the exchange rate to be applied (e.g. the date of transfer by the donor) and the duty of the partner government to confirm these exchange transactions immediately to the donors.
28. If the support is fully aligned with the partner government's budget system, funds are deposited into a foreign exchange account maintained by the Central Bank or the ministry of finance of the partner government. The JFA should explicitly state whether the foreign exchange or other account held by the partner government should be an interest bearing account or not. It should be also stated whether the proceeds would supplement the pooled funds for the National Plan/program. It should be noted that some donors are required by their statutory provisions to have the interest generated to be returned prorata to (the interest proceeds of) its contribution, so as to avoid deliberate underspending of the funds deposited. An option would be for these donor(s) to deposit their funds in a (separate) non-interest bearing account. Deviating positions on this item should be included in the bilateral arrangement of the donor concerned.
29. If it is not feasible to align the support with the financial system of the partner government, donor funds are not channelled through the treasury. Instead, donor funds are then normally deposited in a separate foreign exchange account, preferably opened and managed by the partner government; alternatively, management of such a basket fund could be the responsibility of the donors or a third party (e.g. a contracted banking institution).

Paragraph 4 (Consultations, decision making process)

30. Regular consultations between signatories on the implementation of the plan/program and transparent procedures for decision making are critical for effective aid coordination and risk management. The same is true with regard to timely sharing of information (e.g. reports, project proposals, consultancies) amongst the donors and timely provision of full information on aid flows to the partner government. JFAs should cover these items to the extent necessary. A dialogue which is fed by measuring performance against indicators decided ex ante unifies the objectives, strengthens the focus of all partners on these objectives and facilitates a more businesslike attitude in the dialogue¹¹. The outcome of the dialogue, much more than reaching an indicator or not, can come to play a decisive role in disbursements of funds. Monitoring of performance against indicators can feed the dialogue and help to determine whether partners are truly committed to achieving results.
31. JFAs should set out in this paragraph the procedures and structures decided on for policy dialogue consultations with the partner government. Policy dialogue is critical, allowing discussion of the focus of donor support, the implementation and budget execution of the plan/program against the agreed indicators, and consultation with the government on the policy response if performance is unsatisfactory. The consultation mechanisms described in this paragraph, including timing and frequency of meetings, should reflect (to the extent possible) alignment with the partner governments' planning, budgeting and review processes (GPP23). Details may be required on the frequency and scheduling of these meetings, the participants (e.g. specify the relevant national ministries) and the main items on the agenda. As mentioned, coordination should be led by the partner government, the partner government should organise and chair the meetings.
32. Key items on the agenda for the consultations could include the review of progress in the implementation of the national plan/program on the basis of the agreed performance indicators, conditions for disbursements, review of future action plans and the government corrective measures in the case of major slippage. Items for dialogue specifically related to budget support include inter alia reviews of public finance management and public procurement reforms, review of revenue and expenditure priorities and review of budget execution.

¹¹ The indicators are usually included in a policy matrix or performance assessment framework (PAF).

33. The JFA should specify the documentation/reports the partner government must deliver to the donors prior to these meetings and the timeframe for submission. If donors intend to align their support with the planning, budgeting and review system of the partner government, they should refrain from setting up parallel systems and should accept the documentation/ reports prepared by the partner government within the national budget cycle, provided that these contain the level of information required for making a well-informed and sound assessment of the country's performance. Other factors may also be taken into consideration, e.g. results of annual performance assessments, reviews of Public Finance Management etc.
34. The proceedings of the consultations should be recorded in Agreed Minutes or a similar document. The JFA should specify the party responsible for drawing up these minutes (usually the partner government) and the timeframe for submission to the other signatories (for approval). Signatories have to agree in this paragraph on a reasonable period for preparation and submission of the Agreed Minutes by the partner government. All signatories participating in the consultation meeting should approve and sign the Agreed Minutes.
35. JFAs should state that decisions of the donors on disbursements will be taken (preferably jointly) on the basis of the outcome of the dialogue with the partner government. The decision-making procedure should be transparent, specifically with regard to how a common position is reached on the implementation of the plan/programme/PRSP and on compliance with the provisions of the JFA. JFAs should also specify who is eligible to vote and within what timeframe decisions should be taken. Special attention should be given to decisions on consequences of major slippage relative to the agreed performance indicators
36. Although joint decision-making would be highly preferable, it is recognised that donor-specific policies and/or legislation, may require inclusion of a reservation in the JFA stating that donors retain the right to deviate from any common understanding on specific issues reached by the signatory donors.
37. If the consultations are not aligned with the national planning and policy consultation mechanisms, a parallel system should be outlined in this paragraph of the JFA including a detailed description of the responsibilities of the donors and the Ministry, inputs for and scheduling of meetings, the agenda, the chair, and the Agreed Minutes.

Paragraph 5 (Organisational structure)

38. If the partner government's budgetary and accountability system and legislation do not provide sufficient assurances for the donors, in terms of both adequate implementation and accountability, it may be necessary to set up parallel structures in the JFA for planning, coordination and consultation purposes among signatories and to clearly define the responsibilities of the national authorities involved, often distinguishing between multiple levels, with regard to the implementation of the plan/programme.
39. For this purpose, it may be necessary to include sub-paragraphs describing joint working and coordination arrangements (e.g. establishing joint steering committees, a sector technical committee, implementation units, a financial committee). The composition of these committees should be indicated and terms of reference annexed to the JFA. Preferably, the partner government authorities chair these committees. Also, a description of the main procedures to be applied by these committees may be required, either in the body of the JFA or as an annex. It is observed that donors participating in such committees should define their role modestly, thereby respecting the primary responsibility of the partner government authorities for the implementation of the plan/ program.

Paragraph 6 (Disbursements)

40. Predictability of funding flows by the Donors as a collective is one of the main 'guiding principles' that should be taken into account when negotiating JFAs. One common disbursement system, a common set of indicators and a multiyear timeframe will create a level of predictability for the recipient partner which exceeds the predictability donors could grant individually. Predictability is in the interest of the partner government as it facilitates proper (medium-term) public expenditure planning. If feasible, donors should programme their aid over a multiyear timeframe that is consistent with the financial planning horizon of the partner government. Accurate coordination among the donors directed at ensuring that the collective funding flow meets the funding requirements of the partner government, is essential, while individual donors should be allowed to accommodate domestic funding cycles and constraints.
41. If at all possible, JFAs should indicate as precisely as possible the period/month in which the donors will confirm their contribution for the next year or indicate the value of the planned contribution for the following year. In general, (pledging) arrangements described in this paragraph should, preferably and to the extent possible, reflect alignment with the partner government planning and budgetary cycle. In particular, the scheduling of commitments is important and should coincide with the preparation phase of the national budget, in order to facilitate and improve macro-economic management by the partner government (GPP 22).
42. Donors should seek to agree on one common disbursement mechanism in order to cover the budget requirements and cash flow needs of the partner government for the fiscal year in question. This implies that the donors should decide amongst themselves the portion they intend to release for the budget year under review and the conditions for release¹². The actual payment schedule, including frequency of disbursements, will be defined in the bilateral arrangements. As such, the bilateral arrangements are the legal 'title' for effecting payments. The payment schedule in the bilateral arrangements should be in accordance with the common disbursement mechanism stipulated in the JFA.
43. Joint financing contributions are released on a quarterly, semi-annual, or annual basis, depending on the financial rules of the donor concerned. Appropriate tranching would link the timing and size of disbursements to the degree and pace of the implementation of the national plan/program. The first tranche is usually released in the first month of the fiscal year, sometimes on certain preconditions (e.g. a positive outcome of a PFM review in the preceding budget year, existence of an annual sector plan). Decisions regarding subsequent releases of funds are normally linked to performance and taken jointly by the donors on the basis of the results of the policy dialogue with the partner government and the common disbursement mechanism agreed upon in the JFA. Joint decision-making on the release of funds is important in order to facilitate a gradual and consistent flow of funds for the partner government. Timing of the announcement of commitments and the scheduling of disbursements should be compatible with the partner government budget cycle in order to facilitate the partner governments macro-economic management (GPP22).
44. If the support is directed to a set of clearly defined activities defined in the national plan/program, provisions on disbursements should be linked to the progress reported in achieving specific outputs, and the real liquidity needs for the next year or half year period.

¹² Allowances for donors' domestic budget allocation processes and timelines can be made as long as the funding flow needs are covered by one or more of the donors. For example, donor 'A' releases funds on February 1 to accord with its domestic regulatory framework, whereas donor 'B' releases funds on June 1. Donors 'A' and 'B' can coordinate the amount and date of release of funds with each other to accommodate their domestic regulatory frameworks so and to the extent that an adequate flow of funds to the partner government will be ensured in accordance with the needs of the partner government.

Paragraph 7 (Procurement)

45. The applicable national procurement regulations, guidelines and procurement practices and institutional capacity and competence of the partner government should be assessed in the preparatory phases of the process of the SWAp, risks identified and a risk management strategy developed. Ex-ante assessments should be aligned with partner government Public Finance Management diagnostic tools, where possible. If available, recent assessments made by a specific donor or a multilateral organisation could be relied on. For example, in countries where a Country Procurement Assessment Review (CPAR) has been conducted by the World Bank (ideally jointly with the partner government), the results of that review could be used. The assessment can serve as the basis for discussions of the development compact with the partner government.
46. Procurement activities should be carried out by the partner government on the basis of its national procurement regulations, guidelines and procedures provided that they conform to internationally accepted standards¹³. Critical principles that should be captured in the national procurement regulations framework include application of appropriate thresholds and objective criteria for assessing bids and awarding contracts, award of contracts to the tenderer offering best value for money, principles of transparency, equal treatment for potential contractors and suppliers of both domestic and foreign origin, and care to avoid any conflict of interests. As procurement in general is prone to corruption, special attention needs to be given to proper assessment of the checks and balances in the procurement process and system¹⁴. Donors should ensure that they will have access to all relevant documents and information relevant for monitoring the procurement practices of the partner government. When assessing the national regulatory framework against the internationally accepted standards this includes ensuring that all procurements are untied.
47. If national procurement regulations and procedures do not meet the international accepted standards on key elements, a decision has to be taken as to what procedure should be used. Several options are possible for the purposes of this JFA, including mandatory adherence to the World Bank procurement guidelines and documents, or mandatory adherence to the procurement rules and procedures of UN or regional development banks. When deciding on these options, a key consideration should be the capacity of the partner government staff to apply the selected regulatory framework. If the capacity is too weak, donors may insist that the services of an (international) procurement technical advisor are contracted to provide specific training and to administer, manage and report on the application of the agreed procurement regulatory framework.
48. If the national regulatory framework is acceptable but the institutional capacity of the partner government is weak, targeted technical assistance inputs may be necessary to address specific deficiencies. The JFA may then contain provisions on the, preferably demand driven, technical assistance inputs needed to address specific weak elements in the procurement structures: e.g. recruitment of a procurement specialist, preparation of manuals on procurement procedures (compliance with such a manual would be a condition set in this paragraph), and training of key staff in specific sectional ministries/agencies. If technical assistance in procurement is contemplated, the JFA should specify the responsibilities of the donors and the partner government e.g. with regard to determining the ToR, recruiting experts/consultants, financing costs related to TA, etc.
49. JFAs may also include specific provisions on supervision allowing the donors to monitor the application of procurement rules and procedures by the partner government. As such, JFAs should include an obligation for the partner government to report on the application of its procurement regulations and to provide the donors with appropriate information, or seek no objection from the donors, on critical stages in the procurement process e.g. specific tender documents before issuance, evaluation of proposals, award of contracts.

¹³The international standard of choice is harmonization with the WTO. Normally the partner government's regulatory framework is evaluated for the degree of compatibility with the key WTO standards and operational capacity to implement them.

¹⁴ In countries with a high risk profile, explicit anti-corruption arrangements could be included in the letters of invitation, similar to the subparagraph provided for in paragraph 12 of the JFA template.

50. Pursuant to the OECD/DAC recommendation on untying official development assistance to the least developed countries, adopted at the DAC High level meeting of 25-26 April 2001, DAC Members should ensure ex ante notification of untied aid offers exceeding the threshold of 986,000 and of contract awards to such untied aid offers¹⁵. Given this OECD/DAC recommendation JFAs should include a provision stating that the partner government is responsible for providing such notification in a timely fashion. The recommendation does not apply to 'free standing technical assistance'.

Paragraph 8 (Reporting)

51. Reporting and monitoring systems should be as simple as possible and designed to serve the interests of both the partner government and the donors. It should be ensured that these systems deliver effective, efficient and meaningful results which are commensurate with the cost of the information collection. The reporting requirements stated in the JFA should be comprehensive, specifying the types of reports requested, the periods under review, and the terms for submission.
52. To the extent possible, the donors should pursue alignment and adapt their reporting and monitoring needs to fit with effective government systems. If changes are required to the partner government's reporting and monitoring systems, the donor group as a collective (and not individually) may wish to discuss with the partner government as part of the development compact the minimum of improvements required to achieve the essential monitoring and reporting capacity and to offer assistance to the partner government in meeting the requirements for improvement. To avoid duplication and to reduce costs, donors should refrain from setting additional or conflicting reporting requirements in their bilateral arrangements.
53. If the support is aligned, the donor reporting requirements should be in line with the overall reporting and monitoring system adopted by the partner government (GPP 49/50). This implies that the JFA should refer to the reports used by the partner government in the budget process and accountability system. The reports should be drawn up in formats used by the government, and reporting periods and terms for submission applied by the partner government should be aligned with its policy and budget cycles (in particular the production of the annual PRS Progress Report and the MDG Report, as may be appropriate, should be aligned with the budget cycle). Reporting should be based on the performance indicators defined in the national plan/program/PRS. These elements should all be specified in the JFA.
54. The partner government's annual financial report should be drawn up in such a way that funds provided by individual donors are recorded properly. The annual financial report is normally submitted to the partner country's legislature and to the Supreme Audit Institution (SAI) for auditing. In the case of sector programme support, donors should rely on the financial reports of the relevant sector ministry where these are considered to be acceptable. Where sector programme support includes conditions relating to the use of the funds, specific data on these funds may be incorporated into these reports (GPP71).
55. If alignment is not feasible because partner government monitoring and reporting systems cannot be fully relied on, an alternative or additional reporting and monitoring system has to be agreed upon in the JFA. This implies that the JFA should provide details on formats, content, frequency of reporting and (realistic) terms for submission.
56. As mentioned in the section on paragraph 1, the JFA should include a matrix of the mutually accepted performance indicators. The monitoring process is subject to the agreed consultative and review procedures. The agreed monitoring framework should also specify the number and length of missions as well as how monitoring results will be acted upon (GPP61). The JFA should link the results of the monitoring process to possible actions; e.g. they might serve as input for policy dialogue, as trigger for disbursements, or as grounds for suspension of resource transfers.

¹⁵ However, it should be noted that some donor countries apply lower thresholds; threshold stated in the JFA may therefore vary depending on the policy of the signatory donors

57. When partner government systems are too weak to meet the reporting conditions set out in the JFA, capacity building directed to strengthen these systems should be a priority for external assistance (GPP70).

Paragraph 9 (Review and evaluation)

58. One of the most frequent complaints made by the partner governments is that too much time is spent with donor officials and responding to donor needs. Sometimes these meetings are scheduled without giving sufficient consideration to partner governments' agendas and irrespective of claims made by other donors on the time of government officials (GPP63). Good practice would therefore be for donors to conduct fewer missions, to better coordinate the timing of these missions and to strive to conduct them jointly. Donors should strive to include provisions in the JFAs reflecting these practices.
59. Review arrangements established in JFAs, reflecting the above principles, should be transparent, simple and fit into/build on the country monitoring and review systems, e.g. PRSP reviews, PFM reviews and sector reviews, whenever feasible. Explicit arrangements could be included on the type and timing of review missions and the signatories participating in these missions. Signatories should share and disseminate monitoring results to the fullest extent (GPP59 et seq.).
60. If the support is aligned with the monitoring system of the partner government, arrangements in the JFA on reviews should fit into the partner government led processes for reviewing its national plan/PRSP strategy (GPP23). Reference should be made to common performance indicators and related reference documents; these indicators serve to measure the process of improving the public financial management system. Reviews should be updated through annual assessments, using appropriate mutually agreed financial management performance indicators (GPP61).
61. As a main principle of harmonisation donors are strongly urged to refrain from conducting unilateral/bilateral reviews/evaluations. However, when these do take place, the donor in question should inform and consult with the other signatories reasonably far in advance. It is preferable for the ToR then to be prepared in consultation with the other signatories. The donor concerned should always share reports on reviews/evaluations with the other signatories. As stated in section 17 (footnote 6), it is common understanding that such unilateral actions would be covered through separate bilateral funding, not covered under the scope of the JFA.
62. If alignment with the monitoring and review system of the partner government does not prove feasible, detailed provisions on joint reviews/evaluations should be included in the JFA. The JFA should provide details on the preparation of the ToR and the tasks and responsibilities of the donors involved, including reporting on results and findings. If third parties are contracted for the implementation of the monitoring, the JFA should include appropriate provisions on similar items and on arrangements regarding the costs involved.

Paragraph 10 (Audit)

63. JFAs should specify the audit arrangements that apply to the donor supported national plan/program. The audit provisions included in the JFA should reflect, as much as possible, alignment with the partner government's audit system, provided that this system meets the internationally acceptable auditing standards (international audit standards like Intosai or the International Standards of Auditing (ISA), or national standards based on these standards). This implies that an ex-ante assessment of the quality and integrity of the Supreme Audit Institution (SAI) of the partner government should be executed.

64. If alignment with the accountability system of the partner government is feasible, the donors will rely on the annual national financial report submitted by the partner government to the national legislative (or similar) body. The key issue is that the support should be identifiable as income in the financial report and the report should be prepared in accordance with acceptable auditing standards.
65. The annual national financial reports are normally audited by the Supreme Auditor General. JFAs should contain a provision indicating a realistic timing for submission. 'Good practice' for timing of submission of these reports is four to six months after the end of the fiscal year, provided that this term is realistic in the light of the country specific circumstances.
66. If support is aligned and linked to specific sector plans/programs, the financial reports should reflect the transactions financed by the donors under the JFA. This assurance may be provided by the Supreme Auditor General, provided that the practices and procedures of the Supreme Auditor General are considered acceptable.
67. If the national audit systems are considered too weak, private-sector auditors may be contracted, preferably by the relevant national authorities (or national SAI). The quality of the audit firm should be acceptable to all signatories, and the scope and ToR for the assignment should be agreed upon in advance by all signatories. The ToR could be annexed to the JFA¹⁶. While audit reports would normally be provided annually, where particularly high risks have been identified, such reports may be required more frequently, or special audits may be required in addition.
68. JFAs should contain a provision describing the procedure to be applied by donors for assessment of audit reports; possible consequences of the assessment and follow up by the donors should be stated. Donor decisions on compliance with audit requirements should be taken jointly. As mentioned in the section on paragraph 4 (re decision-making process), individual donors may wish to deviate from this position. It may be necessary to indicate this in this paragraph.
69. The donors will dialogue with the partner government as to the implementation of corrective action in response to audit recommendations and the most suitable mechanism to follow up on such implementation. Where needed, donors may wish to fund technical assistance for the implementation of the agreed-upon corrective action.
70. If alignment with the accountability system is not feasible, JFAs should include a provision stating that donors can undertake independent audits and reviews. Arrangements should be elaborated in this paragraph on the roles and commitments of donors: e.g. preparation of ToRs, contracting of third parties, participating donors, sharing of reports and scheduling of missions.

Paragraph 11 (Non-compliance, force majeure)

71. The non-compliance paragraph in the JFA consists of three main notions. Fundamental is that serious non-compliance by the partner government with the basic conditions for cooperation and fundamental principles set out in the JFA, may lead the donors to imposing sanctions. The paragraph has been formulated in very general terms; specific circumstances that give grounds for imposing sanctions could be described, such as lack of commitment by the partner government to the reforms targeted by the support, serious lack of progress in the implementation in the national plan/program, unsatisfactory management, misuse of funds, fundamental changes in the (political/economical/social) circumstances under which the national plan/program had started. External circumstances beyond the control of the partner government ('force majeure') may also warrant the suspension of further financing. It should be noted however, that suspension of disbursements due to 'force majeure' should not be regarded as a sanction but as a (temporary) measure taken on grounds of efficiency and/or policy.

¹⁶ See GPP, chapter 5 'technical guidance notes' on financial reporting and audit, including a guidance on preparation of ToR for external auditors

72. JFAs should make it clear what type of sanctions could be imposed in case of serious violations by the partner government of (main) conditions and/or principles stated in the JFA that are considered fundamental for the development compact. Basically, donors may choose between suspension or reduction of new disbursements, whether or not in combination with recovery (in whole or in part) of the funds already disbursed. Fundamental to this is the distinction between 'direct budget support' and 'other than direct budget support'¹⁷. Reclaiming of funds is a rather heavy measure and in principle only possible with regard to other financing modalities than general budget support¹⁸. Claims for (partial or complete) recovery of funds could result in serious disruption of the national budget and would be very damaging to the development process of the recipient country. To mitigate the adverse consequences of any such actions, gradual reduction or recovery of funds may be contemplated.
73. Non-compliance clauses in JFAs should include procedures for consultation among the signatories. As disruption of donor support may have serious consequences for macro economic planning and management by the partner government, it is important to initiate timely consultations with the partner government. Imposing sanctions should preferably be the result of a joint decision involving all donors; unilateral action should be avoided as much as possible. However, donor-specific policies and regulations may overrule common positions set out in JFAs. This may result in unilateral decisions on imposing sanctions on the basis of specific provisions stated in the bilateral arrangement/agreement of the donor concerned.

Paragraph 12 (Corruption)

74. The fight against corruption has a prominent place on the international agenda for development cooperation. Donors and partner countries pay increasing attention to the development of anti-corruption legislation and PRSPs often include an outline of national anti-corruption strategies and policies. Accordingly, it is common practice to include in arrangements a statement reflecting the concerns of the international community regarding corruption in general. Such an 'anti-corruption' provision serves primarily to ensure that the theme will be on the agenda for the policy dialogue with the partner government.

Following the OECD/DAC recommendation on anti-corruption¹⁹ the following provision could be included in JFAs:

'The partner government will require that its staff and consultants under projects or programmes financed by the donors will not offer third parties or seek, accept or be promised from or by third parties, for themselves or for any other party, any gift, remuneration, compensation or profit of any kind whatsoever, which could be interpreted as an illegal or corrupt practice.'

76. Transparency is considered as a useful general strategy to avoid corruption. JFAs should therefore include a provision stating that the partner government has a duty to inform the donors about all incidents and suspected incidents of corruption that occur in relation to the use of donor funds. In case of donors providing direct budget support, such provision in the JFA should refer to the overall national (or relevant sector) budget.

¹⁷ See the annex to this Guide with definitions of financing modalities.

¹⁸ This principle is not shared by all donors involved in the design of this Guide and template. Some of the donors apply the policy that recovery of funds should always be a possibility in case of non-compliance, irrespective of the modality of financing.

¹⁹ -re OECD/DAC Recommendation on Anti-Corruption Proposals for Aid-Funded Procurement, 1996.
-Alternative reference material which reflects a broader range of stakeholders could be used, e.g. the UN Convention against Corruption adopted on 31 October 2003.

Paragraph 13 (Modification, donor accession and withdrawal)

77. JFAs should be open to new donors. New donors who wish to accede to the multi-donor undertaking should fully acknowledge the terms and conditions of the existing JFA. This could be done e.g. by letter from the new donor to the partner government. The partner government on its turn must inform the donors accordingly. In exceptional cases, it may be necessary to conclude a new JFA.

The signatory donors must be consulted/informed well in advance when a new donor intends to join to the JFA, either directly by the new donor itself or through the partner government. Addition of donor funding will have to be assessed within the context of funding obligations by the signatories as well as the absorptive capacity of the partner government.

78. The JFA should describe the procedure to be followed if a donor decides to withdraw. The most appropriate procedure in this case would be that the donor in question informs all other donors and the partner government in writing, e.g. with three months' written notice, of its decision to withdraw from the JFA. Donors planning to withdraw, should take into account possible adverse effects on the national plan/program/budgetary process, and therefore exercise with care.
79. As withdrawal of donor support may have, possibly significant, implications for the overall funding for the national plan/program, this may require revisions of the plan/program. It should be noted that a decision by a donor to withdraw from the JFA on grounds not related to 'non-compliance' should affect only future financing; funds already disbursed would in such case not be reclaimed.

Paragraph 14 (Dispute settlement)

80. Any dispute among the signatories should be resolved through consultations. To this effect JFAs could contain the following provision:

'If any dispute arises between the signatories as to the interpretation, application or performance of this JFA, signatories will consult with each other in order to reach an amicable solution.'

Paragraph 15 (Entry into effect)

81. In practice signatories do not always sign a multiple donor JFA on the same date. The effective date of a JFA may therefore vary and is usually established to be the date of signing by the partner government and the donor concerned. The following provision is often used:

'This JFA enters into effect on the date of signature by the (national ministry) and the individual (e.g.) Donor'.

82. While the JFA normally defines the duration of the overall donor support to the plan/program/ PRSP, the bilateral arrangements specify the period for use of the contribution from the donor concerned. As the period of duration of the JFA and the bilateral arrangements/agreements may not always fully coincide, it may happen that a specific donor may, formally spoken, still be a signatory to the JFA while the duration of his bilateral arrangement with the partner government has already expired. Donors may wish to decide on specific arrangements regulating the status of donors whose bilateral arrangements have expired but who are still formally signatory to the JFA. For example, provisions could be included stating that these donors may take part in general consultations and the like, but will no longer take part in decision-making processes. Other arrangements can be negotiated, as deemed appropriate. Amendments to the JFA, including its annexes, will be valid only if agreed in writing by all signatories. Amendments to any of the other basic documents (e.g. the plan/program/PRSP) not forming an integral part of the JFA, may be amended through consultations as referred to in the section on paragraph 4.

Annex to the Guide for negotiating joint financing arrangements

Under donor coordination a vast variety of joint financing arrangements is available. Those arrangements can be differentiated as to the degree of alignment with the recipient government budget system. In reference to the conclusions of the Monterrey conference on Financing for Development, the Ministerial Declaration of Rome on harmonisation of donor practices calls for the highest degree of alignment that is feasible in any given circumstance. For financing arrangement, this is generally regarded to be direct budget support, either at sector or at general level.

The following criteria have to be considered in determining the degree of alignment that donors intend to achieve by entering into a joint financing arrangements/agreements. In practice, a range of degrees of alignment is possible.

	Fully aligned	Most common	Least aligned
Budget planning by government	yes	yes	no
Budget execution by government	yes	yes	no
Budget approval by parliament	yes	no	no
Budget control by parliament	yes	no	no
Disbursement through host government system, i.e. treasury	yes	yes	no
No additional reporting required	yes	no	no
Link with PRSPs	yes	yes	no

The most common classification refers to the current practice of most joint financing arrangements. In this classification donors maintain part of the responsibility in terms of accountability for the use of funds.

The highest degree of alignment means that the final responsibility in terms of accountability rests fully with the recipient government and its supervising structures. This should be reflected in the JFA in terms of a minimum of conditions to be set.

The following modalities of support are distinguished:

- General budget support**
 Refers to support that is provided under a disbursement mechanism that is fully under the host government financial management system and a policy agreement that is fully part of the budget planning process. The support is not earmarked and meant to provide direct support to the general budget. The most frequently used system for monitoring policy implementation are the Performance Assessment Framework (PAF) or the policy matrices. Performance Assessment Frameworks are sets of process and result indicators, arranged under a separate JFA and regularly updated as programs continue. Policy matrices are a set of indicators, which accompany, for instance, national poverty strategies and/or World Bank adjustment loans and are sometimes opened up for bilateral donors with additional indicators.
- Sector budget support**
 Refers to support that is provided under a disbursement mechanism that is fully under the host government financial management system and a policy agreement that is fully part of the sector planning process. The support is earmarked to an overall sector policy programme, but not to specific programmes or parts of that overall sectorprogramme. It is meant to provide direct support to the budget of a line ministry. As above, monitoring is done against a set of indicators that are part of the sector reform program.

- **Virtual funds**
Refers to support that is provided under a disbursement mechanism that is fully under the host government financial management system and a policy agreement that is fully part of the budget planning process. The support is earmarked to a part of the overall government policy program, but fully within the budget process. Usually, virtual funds are characterised by protection mechanisms, which secure a minimum level of funds available for implementation of the policy program. The fund is virtual in the sense that it is a part of the budget which is ring fenced and protected by the partner government.
- **Pooled fund**
Refers to support that is provided under a specific disbursement mechanism, agreed upon between donors and host government. The support is earmarked to a broad policy program, part of the overall government policy program and as such fully part of the budget planning process. To a large extent the procedures are the same as for virtual funds, but the fact that the disbursement is not fully under the government financial management system and additional reporting or accounting requirements are required, qualify this modality as off budget.
- **Basket fund**
A separate fund under negotiated arrangements for reporting, disbursement, monitoring and dialogue which is administered separately from the budget, but is binding for the participating parties. Disbursement mechanism and policy planning are negotiated by donors and host government in addition to and not (fully) part of the host government financial management and policy planning mechanisms. The fund seeks to reap the advantages of joint financing, but due to weaknesses in the budgetary system additional conditions have been set by donors in order to secure appropriate and effective use of the funds.
- **Program funding**
A funding mechanism to support a set of clearly defined activities, not necessarily by more than one donor under separate administration. Disbursement and policy planning are separate from the budget cycle. Accountability over the use of funds is primarily addressing the requirements of financing agencies. The program may run over a longer period of time, without well-defined end results, but with a clearly defined monitoring system.
- **Project funding**
A cluster of specific activities linked together under one overall objective to be realised within a limited time span. Financing is specified according to actions to be undertaken. Disbursement mechanism and policy planning are separated from the budget cycle.

TEMPLATE FOR JOINT FINANCING ARRANGEMENTS

Joint Financing Arrangement between the (...) Ministry (name of national Ministry in full), and the Donor Group

1. Whereas the Government of ... / (relevant Ministry) (hereinafter referred to as 'the Ministry') has requested the support of the Donor Group (hereafter referred to as 'the Donors') to contribute towards the funding of the ... (specify National Plan/PRSP/sector programme) (hereinafter referred to as the 'National Plan/Program')²⁰. The Ministry and the Donors together are hereafter referred to as 'the Signatories'. (optional: The list of the signatory Donors is attached to this JFA as Annex ...)
2. Whereas the Ministry has committed itself to provide an agreed level of funding to the National Plan/Program. The Donors have committed themselves to support the National Plan/Program with financial (optional: and technical) assistance as requested by the Ministry.
3. Whereas the financial contributions by the Donors will be decided on within the bilateral arrangements/agreements between the Ministry and the Donors.
4. Whereas the Donors have committed themselves to the principles of harmonisation as reflected in this Joint Financing Arrangement (hereafter referred to as 'JFA') and strive for the highest degree of alignment with the budgetary and accountability system and legislation of the Ministry so as to enhance effective implementation, to reduce the administrative burden on the Ministry and to minimise transaction costs.
5. Whereas the Ministry and the Donors have reached an understanding on common procedures for consultation and decision-making, disbursement mechanism, monitoring and reporting, review and evaluation, audit, financial management and the exchange of information and cooperation between the Signatories as reflected in this JFA.
6. Whereas respect for human rights, democratic principles, the rule of law and good governance, which governs the domestic and international policies of the Signatories, are the fundamental principles on which the cooperation among the Signatories rests and which constitute essential elements of this JFA.

Now, therefore, the Signatories have decided as follows:

Paragraph 1 (Goals of the Program and scope of the JFA)

7. The (overall/long-term/intermediate) goal/objective(s) of the National Plan/Program is/are ..., as stated in the (specify name of) ... document, dated ... The National Plan/Program document is the policy framework document that describes the national strategy and action plan for poverty reduction, including the national development cooperation goals.
8. The National Plan/Program document will be brought up to date whenever required, taking into account ... (e.g. the results of reviews, the decisions taken by the partner government on the basis of the consultations with the Donors, national/international developments, etc.).

²⁰ Indicate the modality of joint financing.

9. This JFA sets forth the jointly agreed terms and procedures for (budget/financial) support to the National Plan/Program and serves as a coordinating framework for consultation with the Ministry, for joint (e.g.annual) reviews of performance, for common procedures on disbursement, for reporting and for audits.
10. The Donors will establish bilateral arrangements/agreements that are compatible with the spirit and provisions of this JFA and will refrain, as far as possible, from setting conditions in the bilateral arrangements/agreements which contradict or diverge from the spirit or of provisions of this JFA. If there is any inconsistency or contradiction between the terms and conditions of this JFA and any of the bilateral arrangements/agreements, the provisions of the bilateral arrangements/agreements will prevail. Insofar specific provisions of a bilateral arrangements/agreements deviate from the JFA, the Donor concerned will inform the other Donors thereof, by supplying a copy of it to each other Donor, specifying the provision(s) concerned.
11. The Donors will base their actual support on the progress attained in the implementation of the National Plan/Program. Progress will be measured through the common agreed performance indicators. (in the case of 'alignment with the monitoring framework of the partner government': ... common agreed indicators as described in (e.g.) the national Performance Assessment Framework (PAF). The PAF is attached as Annex 1 to the JFA).
(or:)
(if alignment with the monitoring framework of the partner government is not feasible:... common agreed indicators as described in the monitoring framework. The monitoring framework is attached as Annex 1 to the JFA).

Paragraph 2 (Responsibilities and representation)

12. The Ministry will be fully accountable and responsible for the implementation of the National Plan/Program and for the management of the financial contributions of the Donors. The Ministry will keep financial records of the support provided in accordance with international accounting standards. The Ministry affirms that the support of the Donors will only be used to cover expenditures included in the state budget as approved by the parliament of ... (name partner country) and only on expenditure on the National Plan/Program. The Donors will not bear any responsibility and/or liability to any third party with regard to the implementation of the National Plan/Program.
13. The Ministry will ... (e.g. description of specific responsibilities with regard to the implementation of the National Plan/Program).
14. A prerequisite for the Donor's support of the National Plan/Program is that the Ministry will have: ... (e.g. description of specific conditions that should be fulfilled prior to the release of the Donor funds).
15. The Donors are committed to ... (e.g. detailed description of specific guiding principles on harmonisation addressed to the Donors).
16. The Donors will strive to ensure the predictability of their (budgetary) support by informing the Ministry as soon as possible of the support they anticipate providing for the period ... (indicate period of years) which period corresponds with the (medium-term) public expenditure framework.
17. The Signatories will cooperate and communicate fully and in a timely manner with each other on all matters relevant to the implementation of the National Plan/Program and this JFA. Signatories will share all information on aid flows, technical reports, and any other documentation/initiative related to the implementation of the National Plan/Program which are relevant to the support.

18. The Ministry will immediately inform all Donors of any circumstance which may interfere or threaten to interfere with the successful implementation of the National Plan/Program with a view to resolve the issue/will call for a meeting to consult with the Donors on remedial action to be taken.
19. In matters pertaining to the implementation of this JFA the Ministry will be represented by ... The representatives of each Donor will be stated in the bilateral arrangements/agreements.

Paragraph 3 (Contributions)

20. The Donors will inform the Ministry not later than ... (month/year), prior to the finalisation of the national/sector budget of their intention to support the National Plan/Program and the time span of their support. The Donors will confirm their precise contributions within the bilateral arrangements/agreements between the Ministry and the individual Donors. The contributions of the Donors may be subject to the approval of their respective parliaments and/or national appropriation rules.

(in the case of alignment with the budgetary cycle of the partner government)

21. The contributions will be deposited, within (e.g.) 48 hours of the date of receipt of the funds, in a single interest/non-interest bearing foreign exchange account indicated by the Ministry and held in the name of (e.g.) the Central Bank of ... The Central Bank will promptly credit the countervalue in (indicate local currency) to the Central Treasury Account of (e.g.) the Ministry of Finance. The ... (indicate local currency) equivalent will be calculated on the basis of the exchange rate on the date of transfer of the funds by the Donor.
22. The Central Bank will immediately acknowledge receipt of the foreign exchange funds, in writing, to the Donor(s) in question. The Ministry will immediately acknowledge receipt of the ... countervalue on the Central Treasury Account, in writing, to the Donor(s) in question.

(in case alignment with the budgetary cycle of the partner government is not feasible)

23. (e.g.) The Donor contributions will be channelled to (e.g.) a common interest/non-interest bearing foreign exchange account indicated by the Ministry, and in the name of ... The Ministry will immediately acknowledge the receipt of the funds in writing to the Donor concerned.

Paragraph 4 (Consultations, decision making)

24. Regular consultations among the Signatories is considered critical to continued engagement by the Donors and effective implementation of the National Plan/Program.
25. The Signatories will meet every ... (indicate period) to discuss the implementation of the National Plan/Program. The meetings will be called and chaired by the Ministry/ (optional: name sectoral Ministry).
26. Describe the information/reports/other inputs required for the consultation meetings: (e.g reports on diagnostic reviews, on Public Finance Management, financial and progress reports, audit reports; annual and medium term plans and budgets; others).
27. Indicate the Signatory responsible for the submission of reports; indicate deadline for submission (... days prior to the planned date of the meeting).

28. Key subjects to be discussed during the consultations include ... (list topics: e.g. assessment/ review of performance/budget execution and expenditure priorities on the basis of the indicators described in (e.g.) the Performance Assessment Framework (Annex 1); review of action plans/ budget for the forthcoming calendar year/ revenue and expenditure priorities; implementation of the JFA; follow up required on audits).
29. The results of the meeting will be recorded in Agreed Minutes. The Agreed Minutes will be drafted by the Ministry and a draft will be sent to all Donors, for their approval/comments, within ... weeks after the meeting. The Donors will inform the Ministry of their approval/comments within ... days of receipt of the draft.
30. Additional consultation meetings may be requested by the Ministry and/or a/the Donor(s) on any subject relevant to the implementation of the National Plan/Program.

Paragraph 5 (Organisational structure)

31. Coordination between the Signatories will be organised through the following joint committee(s) to ensure proper planning, coordination and implementation of the National Plan/Program:... (specify committees).
32. The joint committee(s) will convene every (e.g.) 6 months. The main responsibilities of the joint committee(s) are (e.g. to discuss the implementation of the National Plan/Program, to review the operational plan priorities for the next fiscal year, ... etc).
33. The joint committee(s) will comprise representatives of the Donors and the Ministry (optional: and sectoral ministry). Each committee will be chaired by the Ministry (optional: sectoral ministry). The Ministry (optional: and/or sectoral ministry) will be responsible for the Agenda. The Donors may make proposals for the Agenda. The Donors may call for an interim meeting.

Paragraph 6 (Disbursements)

(in the case of alignment with the budgetary system of the partner government)

34. A common disbursement mechanism will be decided upon between the Ministry and the Donors before the start of the fiscal year of the Ministry. It will take into account the national/sector budget and cash flow needs for the implementation of the National Plan/Program. The Donors will coordinate between themselves the timing and amount of their own disbursements contributions in such a way that the cash flow needs of the partner government and the common disbursement schedule will be covered.
35. The Donors will specify in their bilateral arrangements their respective disbursement schedules, which will be based on the agreed common disbursement mechanism. The first instalment will be released at (optional: within ... weeks after) the start of the fiscal year of the Ministry. (payment of the first instalment may be linked to specific preconditions such as e.g. approval of the annual sector plan/budget, positive outcome of a Public Finance Management review, preparation of indicators).
36. Subsequent instalments will be disbursed by the Donors in accordance with the payment schedules specified in the respective bilateral arrangements/agreements and will take into account the results of performance assessment, the budgetary forecast for the next year and the annual work/action plans of the Ministry.

(if alignment with the budgetary cycle of the partner government is not feasible)

37. The contributions of the Donors will be transferred in instalments upon receipt and approval of written payment requests and the applicable financial and progress reports. In determining the actual instalments the Donors will take into account the actual progress achieved and actual project/(programme) liquidity needs.
38. Each Donor may establish its exact and final financial contribution to the project/(programme) upon receipt and approval of the final report and the financial accounts of the project/(programme). Funds which have been placed at the partner government's disposal and which remain after completion of the project/(programme) will be returned to the Donors in proportion to their respective contributions.
39. If the Ministry carries out only part of the project/(programme), the Donors may adjust any outstanding instalments to be paid to the Ministry accordingly on a fair pro rata basis, or may earmark the remaining part for the contribution to purposes to be decided on by the Signatories.

Paragraph 7 (Procurement)

(in the case of alignment with the partner government's procurement system)

40. The Ministry will perform all procurement in accordance with its procurement rules, guidelines and procedures.

(in case of aligned support and technical assistance is required)

41. The Ministry will perform all procurement in accordance with its procurement rules, guidelines and procedures. The Ministry will strengthen its procurement capacity/improve its procurement rules, guidelines and procedures in the following areas: ... (list the areas which have been assessed as weak and technical assistance inputs required). The Ministry will report to the Donors (e.g. at the periodical consultation meetings) on the progress of the procurement reforms against the agreed upon action plan. The costs of the technical assistance inputs will be borne by ...

(if alignment with the partner government's procurement system is not feasible)

42. The Ministry will perform all procurement in accordance with the World Bank 2004 Procurement Guidelines under IBRD Loans and IDA Credits (as amended) (alternatively, procurement regulations and guidelines of other sources could be used, if felt to be more appropriate other (e.g. UN, Regional Development Banks, FIDIC).

(or:)

The Minister will perform all procurements in accordance with international procurement standards and ... will accept technical assistance input from ... Contracted by ... (CIDA)

(optional: provisions describing conditionalities related to supervision/control of procurement procedures)

43. The Ministry will submit shortlists and tender documents for information to the Donors/ for approval before calling for tender. The Ministry will upon request furnish the Donors with all relevant documents/information on its procurement practices and actions taken, including specifics on and copies of contracts awarded, for their information/approval.

(in case the recipient qualifies as 'least developed country')²¹

44. The Minister will advise the Donors of all contemplated procurements with a value exceeding Euro ... (insert threshold in the selected hard currency selected for the program) funded in whole or in part under this JFA. The Ministry will notify all procurements exceeding this threshold to the OECD/DAC prior the start of the process and will notify the contracts awarded.

Paragraph 8 (Reporting)

(in the case of alignment with the reporting and monitoring system of the partner government)

45. The Ministry will provide the Donors with all information relevant to the implementation of the National Plan/Program. Reporting will be done on the basis of the performance indicators described in the PAF. In particular the Ministry will provide the following reports²¹:
(e.g.)
a) ... reports on budget execution, b) ... financial reports on the implementation of the National Plan/Program, c) ... audit reports²².
46. The reports will address the following items: ...
47. The reports listed above should be submitted to all Donors within (e.g.) 2 months after the end of the period under review.

(if alignment with the reporting and monitoring system of the partner government is not feasible)

48. The Ministry will submit an annual/semi-annual report in writing drawn up in the ... language, in the mutually accepted format (see Annex .. to this JFA). The report will cover the period from (e.g. January to December) and will be submitted before the first of ... (e.g. March) of the next fiscal year. It should contain an overview of project/(programme) activities, information on actual outputs compared to planned outputs, a financial statement showing allocation and use of the funds, problems encountered and/or anticipated and any other information relevant to the implementation of the project/programme.
49. The financial reporting should compare costs for actual activities for the current reporting period with the budget for the same period, and in the same currency. The financial reports should be prepared in a form and at a level of detail that enables comparison of the budget with actual progress.

Paragraph 9 (Review and evaluation)

(in the case of alignment with the reporting and monitoring system of the partner government)

50. The review process of the support of the Donors to the National Plan/Program will be common for all Donors and will be aligned with the Ministry's review process. The Ministry and the Donors will maintain a close dialogue regarding the support and the implementation of the National Plan/Program. Performance will be measured on the basis of the indicators described in the PAF.

²¹ This provision complies with the OECD/DAC recommendation on untying official development assistance to the least developed countries.

²² List reports required that are produced by the partner government in the framework of its reporting and monitoring systems. see section on paragraph 11 of the 'Guide for negotiating joint financing arrangements in support of the SWAp'.

51. Joint (indicate type of) reviews will be carried out by the Ministry and the Donors. (Terms of reference for these review missions will be decided upon jointly by the Signatories). Review missions will be scheduled in such a way that the national budget process is facilitated and that the need for input into the policy dialogue and decision-making processes of the Donors are accommodated to the extent possible. The costs of review/evaluation missions will accrue to ... (e.g. the budget of the National Plan/Program by the Donors)
52. Signatories will promptly distribute all review/evaluation reports to one another.

(if alignment with the reporting and monitoring system of the partner government is not feasible)
53. A joint (e.g. annual) review/evaluation will be conducted in ... (state date; review should preferably coincide with established national review mechanism). Copies of the review/evaluation reports will be promptly shared with the Signatories not represented in the review/evaluation mission. The costs of review/evaluation missions will be borne by the Donors, unless decided otherwise by the Signatories.
54. The Donors will to the extent possible refrain from conducting unilateral reviews/evaluations of the National Plan/Program. However, when a Donor is required to conduct a unilateral review/evaluation this Donor will in a timely fashion consult with the other Donors to discuss/reach a common position/decide on Terms of Reference (ToR), composition and scheduling. The Ministry will be consulted immediately on the proposed schedule and ToR. The Donor concerned will immediately share the results of the review/evaluation with all other Signatories.

Paragraph 10 (Audit)

55. General: specify the audit requirements (e.g. audit of financial records, audit of the budget execution of the state account, value for money audit/performance audit).

(In the case of alignment with the accountability system and legislation of the partner government)
56. The Ministry will furnish all Donors with copies of the (e.g.) annual report of the Auditor General on the Public Accounts of (name country) ... The annual report will be presented to the Donors promptly after the submission by the Ministry of the annual report to the national parliament.
(or:)
The annual report will be presented to the Donors within ... months after the closure of the fiscal year.

(if alignment with the accountability system and legislation of the partner government is not feasible and/or in the case of involvement of private sector auditors)
57. The Ministry will be responsible for contracting independent auditors. The terms of reference for, and selection of the auditors will be done by the Ministry in consultation with the Donors. Costs for the annual audits will accrue to (e.g.) the national budget.
58. The Ministry will furnish the Donors with copies of the audit report prepared by the external audit firms not later than 14 days in advance of the planned date of the policy dialogue meeting. The audit reports, and any other relevant related information, will be discussed in the common consultation meetings, which will be held in ... (indicate month).
59. The Donors may request the Ministry to arrange for a financial audit by an independent auditor acceptable to the Donors.

Paragraph 11 (Non-compliance, force majeure)

(in the case of direct budget support)²³

60. In the case of (serious) non-compliance with the terms of this JFA and/or violation of the fundamental principles set out in this JFA, Donors may suspend further disbursements to the National Plan/Program.
61. If a Donor intends to suspend new disbursements or terminate its support, the Donor will call for a meeting with the other Signatories to discuss a possible joint position on the measures, remedial or otherwise, required. If a joint position cannot be reached, the Donor may inform the other Signatories of its intentions regarding the continuance or discontinuation of support.
62. Each Donor may suspend or reduce new disbursements or terminate its support to the National Plan/Program if the Donors do not reach a common position on the response/remedial action required.

(in the case of other financing modalities than direct budget support)

63. In the case of (serious) non-compliance with the terms of this JFA and/or violation of the fundamental principles set out in this JFA on the part of the Ministry, the Donors may suspend further disbursements to the National Plan/Program and reclaim the funds already transferred in whole or part. (optional: such non-compliance could include inter alia substantial deviations from agreed plans and budgets, misuse of funds, non-compliance with agreed preconditions relating to the implementation of the National Plan/Program).
64. If a Donor intends to suspend new disbursements or terminate its support, the Donor will call for a meeting with the other Signatories in order to reach a joint position on the measures, remedial or otherwise, required or to inform the other Signatories of its intentions regarding the continuation or discontinuation of support.

(force majeure provision, applicable to aligned and not-aligned support)

65. The Donors may suspend or reduce new disbursements in the event of extraordinary circumstances beyond the control of the Ministry which hinder effective implementation of the National Plan/Program. If the Donors consider suspending new disbursements they will consult with the Ministry reasonably long in advance. The suspension will be lifted as soon as these circumstances have ceased to exist/ appropriate remedial actions have been implemented by the Ministry.

Paragraph 12 (Corruption)

66. The Ministry will require that its staff and consultants under projects or programmes financed by Donors refrain from offering third parties, or seeking, accepting or being promised from or by third parties, for themselves or for any other party, any gift, remuneration, compensation or benefit of any kind whatsoever, which could be interpreted as an illegal or corrupt practice.
67. The Ministry will promptly inform the Donors of any instances of corruption as referred to in this paragraph.

²³ see section on paragraph 11 of the 'Guide for negotiating joint financing arrangements in support of the SWAp'.

Paragraph 13 (Modification, Donor accession and withdrawal)

68. The Signatories will annually review/discuss the implementation, application and effectiveness of the procedures outlined in this JFA.
69. Any modification/amendment of/to the terms and provisions of this JFA will only be approved if agreed in writing by all Signatories.
70. The Signatories welcome participation in this JFA by other Donors who wish to support the National Plan/Program.
71. Upon a new Donor's written request and written acceptance of the terms and conditions of this JFA, the Ministry may, as an annex to this JFA authorise in writing that Donor to become a Signatory. The Ministry will promptly consult with the other in advance and furnish them with a copy of the letter of acceptance.
72. Each Donor may withdraw/terminate his support for the National Plan/Program by giving the other Signatories (e.g.) three months written notice. If a Donor intends to withdraw/terminate his support, that Donor will call for a meeting to inform the other Signatories of his decision (and to consult with them about the consequences for the National Plan/Program).

Paragraph 14 (Dispute settlement)

73. If any dispute arises between Signatories as to the interpretation, application or implementation of this JFA, Signatories will consult with each other in order to reach an amicable solution.

Paragraph 15 (Entry into effect)

74. This JFA enters into effect for a given Donor on the date of signature by the (Ministry) and that individual (e.g.) Donor.

Appendix 5

AGREEMENT between THE GOVERNMENT OF THE REPUBLIC OF FINLAND and THE GOVERNMENT OF THE (PARTNER COUNTRY) on Finland's Support Towards the Funding of (National Plan/Poverty-Reduction Strategy/ Sector Programme) of the (partner country)

The Government of the Republic of Finland, represented by the Ministry for Foreign Affairs of Finland, and the Government of (the partner country), jointly referred to as "the Parties", have,

on the basis of the Agreement on General Terms and Procedures for Development Co-operation between Finland and (the partner country), signed on (date), and on the basis of consultations between the representatives of the two Governments, held in(venue) on (date) ,

agreed, in respect of Finland's support towards the funding of the (National Plan/Poverty-Reduction / Strategy / Sector Programme) of the (partner country), as follows:

ARTICLE I Scope and Objective

1. The (partner country) has adopted the (National Plan/Poverty-Reduction / Strategy / Sector Programme), dated (date), the overall objective(s) or which are (an enumeration of the objectives).
2. The objective(s) of Finland's support is to reduce poverty (or other main objectives of Finland's support) by contributing towards the implementation of the (National Plan Poverty-Reduction / Strategy / Sector Programme) with financial assistance.
3. Finland coordinates its assistance with other donors supporting the implementation of the (National Plan Poverty-Reduction / Strategy / Sector Programme). The (document of agreement between the partner country and donors on the management of the joint financing, such as the Joint Financing Arrangement, "JFA", etc.), signed on (date) and attached as Annex to this Agreement, constitutes, with its possible later amendments, an integral part of this Agreement.

ARTICLE II Principles of Co-operation

Respect for human rights, democratic principles, good governance and the rule of law shall form the basis for the co-operation between Finland and (partner country) and constitute the essential elements of this Agreement.

(This Article will not be included in the Agreement if the joint financing, document already contains an equivalent clause).

ARTICLE III Competent Authorities and Implementing Agency

1. The Ministry for Foreign Affairs of Finland, represented in (partner country) by the Embassy of Finland, and the (ministry concerned in the partner country) of the (partner country) shall be the Competent Authorities in matters relating to this Agreement.
2. The responsibility for the implementation of the (National Plan/Poverty-Reduction / Strategy / Sector Programme) and for the management of Finland's support lies with (authority in the partner country determined in the JFA).

ARTICLE IV Financing by Finland

The contribution of Finland to the implementation of the (National Plan/Poverty-Reduction / Strategy / Sector Programme) in (year) - (year) shall, on a grant basis and subject to annual parliamentary approval in Finland, be a maximum of E (figure).

ARTICLE V Obligations of (partner country)

1. The (Partner country) undertakes to provide the agreed level of funding to the implementation of (National Plan/Poverty-Reduction / Strategy / Sector Programme).
2. The responsibilities of the (partner country) are defined in the JFA. The (partner country) shall ensure that no illegal or corrupt practices relate to the use of Finland's Support.

ARTICLE VI Disbursements

1. Finland shall make payments annually, based on the common disbursement mechanism to be decided upon between the (partner country) and the donors, and following the procedure specified in the JFA. The payments shall be made in Euros.
2. The timing of the first payment is specified in the JFA. Subsequent payments will take into account the results of the performance assessments, the budgetary forecast for the next year and the annual work plans of the (partner country).

(This Article will not be included in the Agreement if the joint financing, document already contains an equivalent clause).

ARTICLE VI Disbursements

1. Finland shall make payments against a written request by (partner country), following the procedure specified in the JFA. The payments shall be made in Euros.
2. The first payment will be made (lisää ajankohta). Subsequent payments will be made (lisää maksatusaikataulu), upon receipt and approval of financial and progress reports and taking into account the actual progress achieved and the actual liquidity needs.

(This Article will not be included in the Agreement if the joint financing, document already contains an equivalent clause).

ARTICLE VII Procurements

Procurements shall be carried out in accordance with generally accepted principles and good procurement practices, following the procedures specified in the JFA.

ARTICLE VIII Reporting, Monitoring and Evaluation

Reporting on the implementation of the National Plan/ Programme as well as monitoring and evaluation shall be performed in accordance with the procedures specified in the JFA.

ARTICLE IX Auditing

1. Auditing of Finland's support shall be carried out in accordance with the provisions of the JFA.
2. In addition, the (partner country) shall permit Finland's Competent Authority and Supreme Audit Institutions to conduct audits in respect of the use and management of Finland's support. The (partner country) shall provide the auditors all information they may need for the carrying out the audit.

ARTICLE X Suspension

1. In addition to the situations prescribed in the JFA, Finland shall have the right to suspend in whole or in part the financing if:
 - (a) Finland considers that (partner country) has seriously failed to fulfil any obligation under this Agreement or the Agreement on General Terms and Procedures for Development Co-operation; or
 - (b) the suspension is warranted by a fundamental change in the circumstances under which Finland's support to the implementation of the (National Plan/Poverty-Reduction / Strategy / Sector Programme) was started.
2. The suspension shall cease as soon as the event or events which gave rise to suspension have ceased to exist.
3. Finland reserves the right to claim repayment in full or in part of Finland's support if it is found to be misused.
4. Before suspending the financing or claiming repayment Finland shall consult the (partner country) and the other donors with a view to reaching a solution in the matter.

[ARTICLE XI Liability

Finland does not bear any responsibility or liability to any third party with regard to the implementation of the National Plan/ Programme.

(This Article will not be included in the Agreement if the joint financing, document already contains an equivalent clause).

ARTICLE XII Special Provisions

1. Both Parties shall have the right to disseminate information about Finland's support, including this Agreement, to the general public and other interested parties.
2. The managing of Finland's support shall also be governed by the provisions of the Agreement on General Terms and Procedures for Development Co-operation, unless otherwise provided for in this Agreement.
3. In case of any inconsistency between this Agreement and the JFA, this Agreement shall prevail.

ARTICLE XIII Entry Into Force, Termination, Amendments and Settlement of Disputes

1. This Agreement shall enter into force on the date of its signature and remain valid until all the obligations under this Agreement have been duly fulfilled by the Parties, unless terminated earlier by either Party by giving a notice in writing to that effect three months prior to the termination.
2. Should either Party consider it desirable to amend any provision of this Agreement it may request consultations with the other Party through its Competent Authority. Any amendment shall be agreed upon in writing between the Competent Authorities.
3. Any dispute arising from the implementation or interpretation of this Agreement shall be settled amicably by negotiations between the Competent Authorities.

Done in (venue) on (date) in two originals in the English language.

FOR FINLAND

FOR (PARTNER COUNTRY)

[Name and post clarification]

[Name and post clarification]

ANNEX

Joint Financing Arrangement between the (partner country) and the Donor Group

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