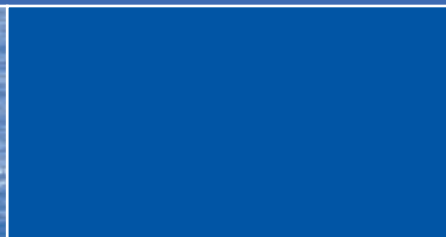

Nordic Plus
Practical Guide to
Joint Financing Arrangements

October 2007



Introduction

The Nordic Plus countries – Denmark, Finland, Iceland, Ireland, the Netherlands, Norway, Sweden and the UK – are committed to the international agenda of aid effectiveness.

A number of joint Nordic Plus tools have been developed in response to the agenda:

- the Guide on Joint Financing Arrangements (JFA) (February 2004, with Canada);
- the Joint Procurement Policy (JPP) (November 2004), supplemented with a Guide (November 2005) (with Canada and Germany); and
- the Practical Guide to Delegated Cooperation (DC) (October 2006).

A Nordic Plus procurement e-learning course is under development (with Canada and Germany) and will be released in late 2007.

An evaluation of the JFA by the Nordic Plus countries identifies it as a practical tool for multi-donor cooperation. On the basis of information retrieved from the embassies and missions for the assessment, a revised version of the original JFA has been developed, namely the Practical Guide to Joint Financing Arrangements (2007 version). The most relevant changes are: it has been adapted to take account of the new JPP and DC instruments, it introduces good practices for determining donor predictability, and it features improved flexibility and user-friendliness.

Nordic Plus field missions/embassies are encouraged to use the JFA in a wider context, actively sharing the documents with other interested parties and not restricting the JFA to multi-donor cooperation with other Nordic Plus countries. Donors outside the Nordic Plus group, recipient countries and other actors in development cooperation are welcome to use the JFA as a tool for enhanced aid effectiveness.

Ministry of Foreign Affairs of the Netherlands
Coordinator of the Joint Financing Arrangement Initiative



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List of major changes from the original Joint Financing Arrangement (2004)
to the Practical Guide to Joint Financing Arrangements (2007 version)

1

Introduction

1. JFA

The Joint Financing Arrangement (hereafter JFA) has been designed as a tool to help aid practitioners involved in multi-donor cooperation. It can be used as an instrument to design or redesign the structure of such cooperation. Because of its versatility and flexibility, the JFA can be used for a broad range of aid modalities (budget support, the pooling of funds or projects). The goal of the JFA is to provide practical support to the field in the often time-consuming process of harmonisation.

The JFA documentation consists of three parts: a template, this Guide and a checklist.

2. Guide

The Guide will help those who are involved in the negotiation of a JFA to make sound judgements on the arrangements required. Furthermore, it will give practical background information on the use of the accompanying checklist and template. The Guide provides an outline of the structure of these arrangements and the way items are grouped into paragraphs. Furthermore, it makes clear how the harmonisation and alignment of donor assistance is operationalised. The presentation of the information in the Guide mirrors that in the JFA template and checklist.

3. Template

The template consists of a set of provisions which can be used to establish a framework for coordinating donor support and cooperation with a partner government. Use of the template is not obligatory. It is intended as a practical tool to be adjusted to the specific financing modality, the local circumstances and the partner government's institutional capacity. If the object of the JFA is a smaller programme rather than budget support, the template can be adjusted as appropriate.

4. Checklist

The checklist can be used as a quick reference to guide users through the content of a JFA.

5. Countries

The checklist, template and Guide have been approved by representatives of the following countries: Canada, Denmark, Finland, Ireland, Iceland, the Netherlands, Norway, Sweden and the UK.

The JFA is also suitable for drafting arrangements involving other donors or multilateral organisations. In such case it is advisable to share the JFA at an early stage with the partner government and other donors, in order to give them time to become familiar with it.

6. Gradual approach in reaching full alignment

Harmonisation and alignment are major underlying principles essential to the design of JFAs, and the ideal would be to fully align donor support with the partner government's budgetary and accountability system and legislation. In practice, it is not yet often possible to achieve full alignment and a more gradual approach is taken in order to contain and manage risks. In particular, in the case of budget support to countries whose budgetary and accountability systems and legislation do not meet or do not fully meet the minimum international accepted standards, it will be necessary to include provisions in JFA on such safeguards as additional reporting or parallel systems on other specific items to mitigate and manage donor risks. The JFA therefore distinguishes between 'aligned' support versus 'non-aligned' support and has to be modified accordingly.

The degree of alignment may also change over time during the period of the PRSP/National Plan supported by the donors. This may necessitate interim amendments of the JFA in order to reflect an evolving process of alignment with the budget and accountability systems and legislation of the partner government.

7. DAC/OECD Good Practice Papers (GPP)

This Guide takes into account a number of good practices between donors and partner governments as described in the DAC Guidelines and Reference Series 'Harmonising Donor Practices for Effective Aid Delivery' (hereafter referred to as '2003 DAC/OECD Good Practice Papers', or 'GPP'; the GPP can be found at <http://www.oecd.org>.) 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.

8. JFA and bilateral documents

The JFA establishes a framework for coordinating donor support and cooperation with a partner government. These arrangements are the expression of the signatories' desire to undertake support activities 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.

A JFA is usually complemented by bilateral arrangements/agreements concluded by each participating donor with the partner government. The use of a separate bilateral document is an instrument to avoid problems resulting from different requirements on the part of signatories. For this reason financial contributions in general should be made in these bilateral documents, and as a general rule not be included in the JFA. Nevertheless, on a case by case basis the signatories may decide to incorporate the financial commitments (and other

possible elements of the bilateral document) in the JFA. Donor-specific reservations and requirements should preferably be avoided. If they are deemed necessary, they should not be included in the JFA but should be covered in the bilateral arrangements/agreements. For the sake of transparency, such reservations could be made visible by listing these in an annex to the JFA.

9. No legally binding language

The use of legally binding language should be avoided when drafting a JFA based on the template. However, it should not be stated specifically that the arrangement is not binding between the parties.

10. Added value of joint financing

When considering a JFA, partners under the arrangement should be clear on its purpose, its added value and the potential risks. They should also decide on a common risk management and mitigation strategy. Joint financing should produce added value over bilateral financing by individual donors in as much as it results in reduced transaction costs for management and monitoring, greater programme efficiencies for all parties involved and the avoidance of duplication of effort by donors and partner governments alike. The signatories to the JFA can benefit from jointly determined objectives and results, more focused dialogue and the prevention of 'island approaches' to development, as well as from the synergy of pooling resources.

11. Delegated Cooperation Arrangements (DCA)

If it is desired that one donor act as 'lead donor', representing the other donors in the relationship with the partner government (a more far-reaching mode of donor cooperation than under a JFA), the arrangement to be used is a Delegated Cooperation Arrangement (DCA). The Nordic Plus Practical Guide as well as the Template on Delegated Cooperation Arrangements are available for such cases.

The DCA normally requires closer cooperation and a closer relationship between the donors than is required under a JFA. However, delegating authority to a lead donor may lead to substantial savings in time and money, for both donors and the partner country. It is also possible to combine the JFA and the DCA arrangement. A JFA can have one or more donors who act as delegating partners to a donor representing them.

12. Flexibility of the JFA

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. 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 (administrative and otherwise) of the recipient government.

2

Items to be addressed in Joint Financing Arrangements

Introductory Paragraphs:

Considerations

13. Signatories

JFAs usually open with an ‘introduction’ specifying the signatories to the JFA. Signatories to the JFA should be represented at ministerial/agency level if possible, preferably not at ‘government’ level. However, this might vary per signatory depending on the policy of the signatories or the applicable statutory provisions on the delegation of authority.

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’.

14. Underlying principles

The introductory paragraphs of the JFA are often presented in preambular fashion, using phrases such as ‘Considering...’ or ‘Whereas...’. Usually they refer to a request from the partner government to the donors for support of its national plan/PRSP. Statements of a more general nature regarding the underlying principles for collaboration may also be included here. 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.

‘Principles’ often referred to include:

- good governance, democratic principles, respect for human rights and the rule of law. These fundamental principles are prerequisites for cooperation and support. Violation of these principles may have consequences for the continuation of donor support to the national plan/programme;
- commitment to the concept of harmonisation as a step towards reducing transaction costs and increasing donor coordination (e.g. by referring to the Paris Declaration);
- donor commitment to the principles of consultation, the sharing of information amongst signatories, coherent communication with the partner government, transparent and predictable action, etc.;
- a statement saying that JFAs are open to new donors that are interested in joining.

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.

Code of Conduct

Sometimes principles for partnership and the approach for a sector are formulated in a separate document (often called a Code of Conduct). The existence of a jointly determined code or set of principles can be mentioned in the introductory paragraphs, just like other policy statements (see the beginning of this subparagraph).

Paragraph 1

Goals of the Programme and scope of the JFA

15. Defining goals and duration

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/programme') usually describes the long and possibly medium-term goals and objectives, and the anticipated time span. This national plan/programme document should not be annexed to the JFA, since these documents are often voluminous and subject to regular updating.

A 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. Link to bilateral documents

Reference should be made to the complementing 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, if they are compelled to take such action, they should invite the other donors to join. Any such unilateral actions would be taken from the undertaking donor through separate bilateral funding rather than under the JFA.

17. Performance Indicators Framework (PAF)

GPP p.28 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/programme, 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/programme.

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 JFA. If it is deemed probable beforehand that these indicators will be changed significantly during the implementation of the national plan/programme, it would be preferable not to annex the matrix to the JFA; instead, a reference to the matrix will suffice. Another effective possibility is to annex the first PAF and indicate that the (often yearly) updates will become a part of the JFA as well. 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 Jointly Approved Minutes of such meetings.

Paragraph 2

Responsibilities and representation

18. Formulating roles, accountabilities and responsibilities

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, depending on what is considered necessary and most appropriate. An outline of good practices for delegated cooperation is given in Chapter 6 of GPP.

In the case of a limited type of Delegated Cooperation Arrangement (see subparagraph 11), the roles and responsibilities of the lead donor should be clearly defined. Alternatively, the description of the respective roles and responsibilities can be split up into separate sections.

19. Role and responsibilities partner government

In any case, the JFA should state that the partner government is solely responsible for implementing the plan/programme/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.

The concrete tasks and responsibilities of the central and/or sectoral partner government authorities with regard to 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/programme (such as specific technical assistance needs, institutional strengthening of government implementation structures, and 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 of carrying them out.

20. Accounting standards

In the 2003 DAC Guidelines 'Harmonising Donor Practices for Effective Aid Delivery', it is established that IPSAS (International Public Sector Accounting Standards) provide a reference point which can be used in assessing governmental accounting standards. Detailed information about IPSAS is available at www.ifac.org.

Note that this sub-paragraph of the Guide only sees IPSAS as a set of financial reporting standards that can be used. Clearly the decision on how close financial support in a specific case can be aligned to a partner's systems is not to be based solely on IPSAS, but on an assessment of the quality of the partner's Public Finance Management as a whole using other tools as well.

21. Information sharing and communication

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. GPP (p.15) states that the donors and partner governments 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.

22. Other responsibilities

Other responsibilities could be highlighted, depending, for example, on the plan/programme supported, the modality of financing and the level of harmonisation and alignment with 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.

A separate section on representation could be included in this paragraph, in particular if the JFA has been concluded at 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

23. Indicative value

JFAs do not normally contain a precise indication of the value of the contributions of the respective donors; at the most they contain a rough indication of each donor's anticipated support in an annex. The precise (multiyear) contributions of the donors are usually specified in the bilateral arrangements, and require, for some donors, formal parliamentary approval.

24. Currency

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 adjust the level of their contribution due to exchange rate fluctuations. However, some donors can only commit themselves in their national currency, e.g. euros.

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.

25. Bank accounts

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 that the proceeds from the foreign exchange or other account held by the partner government will supplement the pooled funds for the national plan/programme.

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, they are 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

26. Importance of consultations

Regular consultations between signatories on the implementation of the plan/programme and transparent procedures for decision-making are critical for effective aid coordination and risk management. The same is true with regard to the timely sharing of information (e.g. reports, project proposals, consultancies) amongst the donors and the 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 dialogue (see sub-paragraph 17 of this Guide). The outcome of the dialogue, much more than whether or not an indicator is met, can come to play a decisive role in the disbursements of funds. The monitoring of performance against indicators can feed the dialogue and help to determine whether partners are truly committed to achieving results.

27. Organising policy dialogue (aligned support):

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/programme against the jointly determined indicators, and consultation with the government on the policy response if performance is unsatisfactory. The consultation mechanisms described in this paragraph, including the timing and frequency of meetings, should as far as possible reflect alignment with the partner governments' planning, budgeting and review processes (GPP, p.23). 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. Since coordination should be led by the partner government, the partner government should organise and chair the meetings.

28. a. key items on the agenda

Key items on the agenda for consultations could include the review of progress in the implementation of the national plan/programme on the basis of the jointly determined performance indicators, conditions for disbursements, review of future action plans and the government's 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.

29. b. documentation, reports

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.

30. c. Jointly Approved Minutes

The proceedings of the consultations should be recorded in Jointly Approved 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 decide in this paragraph on a reasonable period for preparation and submission of the Jointly Approved Minutes by the partner government. All signatories participating in the consultation meeting should approve and sign the Jointly Approved Minutes.

31. d. disbursements

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 jointly determined performance indicators.

32. e. joint decision-making

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 signatories.

33. Consultations (not aligned)

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 partner government, inputs for and the scheduling of meetings, the agenda, the chair, and the Jointly Approved Minutes.

Paragraph 5

Organisational structure

34. Setting up a parallel structure

Donors should decide on an organisational structure for consultations. Paragraph 5 provides an optional text to be used 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. In that case 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 the structure will distinguish between multiple levels, with regard to the implementation of the plan/programme.

35. Working groups

For this purpose, it may be necessary to include sub-paragraphs describing joint coordination arrangements (e.g. establishing joint steering committees, a sector technical committee, implementation units and a financial committee). The composition of these working groups should be indicated and terms of reference annexed to the JFA. It is preferable for the partner government authorities to chair these working groups. Also, a description of the main procedures to be applied by these working groups may be required, either in the body of the JFA or as an annex. It is observed that donors participating in such working groups should define their role modestly, thereby respecting the primary responsibility of the partner government for the implementation of the plan/programme. Reference may be made in paragraph 5 of the template to working groups in which partners other than the donors participate.

Paragraph 6

Financial management and disbursements

36. Predictability of funding

The predictability of funding flows from the donors collectively is one of the main guiding principles that should be taken into account when negotiating JFAs. Predictability is in the interest of the partner government as it facilitates proper public expenditure planning for the medium term as well as the short term.

A 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 provide individually.

If feasible, donors should programme their aid over a multiyear timeframe which is consistent with the financial planning of the partner government. 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 macroeconomic management by the partner government (GPP, p.22).

Another way to improve predictability - especially where multi-annual programmes are concerned - is accurate coordination of payments among the donors. This coordination of disbursements is essential to ensure that the collective funding flow meets the funding requirements of the partner government. Individual donors should at the same time be allowed to accommodate domestic funding cycles and constraints.

37. Disbursement mechanism

Donors are advised to jointly decide on one common disbursement mechanism in order to cover the budget requirements and cash flow needs of the partner government. A factor here is that JFAs normally do not contain a precise indication of the value of the contributions of the respective signatory donors (the backgrounds are explained above in the comments on paragraph 3). The actual payment schedule, including the frequency of disbursements, will be defined in the bilateral arrangements. As such, the bilateral arrangements confirm the financial commitment and outline the mechanism for effecting payments.

Designing a disbursement mechanism that meets all of the requirements demands a degree of skill. The following practical suggestions may help:

- 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 and other arrangements described in this paragraph of the JFA should, preferably and to the extent possible, reflect alignment with the partner government planning and budgetary cycle. The timing of the announcement of commitments and the scheduling of disbursements should be compatible with the partner government's budget cycle in order to facilitate the partner government's macroeconomic management.
- The payment schedule in the bilateral arrangements should take into account the common disbursement mechanism stipulated in the JFA.

- If it proves to be impossible to lay down a mechanism in the JFA, it is possible to draw up an annex to the JFA where this topic is addressed. If necessary, this annex - including the planning of the indicative contributions - could be finalised after the JFA is signed.
- As a good practice to promote predictability among donors, disbursement in year n will in principle be based on the results achieved in year $n-2$.

The donors can decide amongst themselves the portion they intend to release for the budget year under review and the conditions for its release. 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 and to ensure an adequate flow of funds to the partner government in accordance with the needs of the partner government. Semi-annual disbursements may also be planned.

38. Instalments

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/programme. 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 jointly decided 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.

39. Link to the national plan/programme

If the support is directed to a set of clearly defined activities defined in the national plan/programme, 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.

Paragraph 7

Procurement

40. Assessment of national procurement regulations

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 an assessment using the OECD-DAC Joint Venture for Procurement's Methodology for Assessment of National Procurement Systems has been concluded and/or 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.

41. Joint Procurement Policy

This paragraph of the template is formulated on the basis of the Joint Procurement Policy (JPP) of the Nordic Plus group. The options A to F refer to the options in this JPP. The decision tree annexed to this Guide is a tool to help to select the right option for each specific case.

42. Procurement by the partner government

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 standards. Critical principles that should be captured in the national procurement regulations framework include the application of appropriate thresholds and objective criteria for assessing bids and awarding contracts, the 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 system. 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.

43. Other procurement options

If national procurement regulations and procedures do not meet the internationally 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 to the procurement rules and procedures of the UN or any of the 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 capacity is too weak, donors may insist that a procurement technical advisor (international or otherwise) is contracted to provide specific training and to administer, manage and report on the application of the agreed procurement regulatory framework.

44. Technical assistance in procurement

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 sector 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.

45. Monitoring provisions

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 ensure donors have no objections concerning critical stages in the procurement process e.g. specific tender documents before issuance, evaluation of proposals, award of contracts.

46. OECD/DAC recommendation on untied aid

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 €86,000 and of contract awards to such untied aid offers. However it should be noted that some donor countries apply lower thresholds: thresholds stated in the JFA may therefore vary depending on the policy of the signatory donors.

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

47. Good practices: reporting

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 collecting the information. The reporting requirements stated in the JFA should be comprehensive, specifying the types of reports requested, the periods under review, and the time limits for submission.

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 collectively (and not individually) may wish to discuss with the partner government, as part of the development compact, the minimum 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.

48. Reporting (aligned support)

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, pp.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 time limits 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/programme/PRS. These elements should all be specified in the JFA.

The annual financial statement from the Ministry of Finance (or equivalent) or relevant sector ministry should be drawn up in such a way that funds provided by individual donors are recorded properly. The annual financial statement is normally submitted to the partner country's legislature and to the Supreme Audit Institution (SAI) for auditing. Where support includes conditions relating to the use of the funds, specific data on these funds may be incorporated into these reports (GPP, p.71).

49. Reporting (not aligned support)

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 jointly decided upon in the JFA. This implies that the JFA should provide details on formats, content, frequency of reporting and realistic time limits for submission.

50. Link to PAF

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 jointly determined consultative and review procedures. The monitoring framework decided upon should also specify the number and length of missions as well as how monitoring results will be acted upon (GPP, p.61). The JFA should link the results of the monitoring process to possible actions; e.g. they might serve as input for policy dialogue, as a trigger for disbursements, or as grounds for suspension of resource transfers.

51. Capacity building in reporting

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 (GPP, p.70).

Paragraph 9

Review and evaluation

52. Good practices: review and evaluation

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 (GPP, p.63). 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.

Review arrangements established in JFAs, reflecting the above principles, should be transparent and simple and should 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 (GPP, pp.59 et seq.).

53. Review and evaluation (aligned support)

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 (GPP, p.23). 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 jointly determined financial management performance indicators (GPP, p.61).

Evaluations should, preferably, be carried out as joint evaluations. Arrangements should be established in the JFA when an evaluation should take place, who should lead the evaluation process and how the evaluation should be financed. If an independent evaluation unit exists in the partner country's central administration, it should chair the evaluation steering committee. The DAC's Network on Development Evaluation issued 'Guidance for Management of Joint Evaluations' in 2006.

As a fundamental 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 Terms of Reference (ToR) 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 this Guide on paragraph 1 of the template, it is commonly understood that unilateral actions of this kind are to be covered through separate bilateral funding, not under the JFA.

54. Review and evaluation (not aligned support)

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 Terms of Reference 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

55. Good Practices: auditing

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

If this is accepted by the signatories an assessment of the effectiveness of the activities is desirable as well, the option of a value for money audit/performance audit can be added to the last section of paragraph 10 of the template. However, the aim of this type of audit differs from that of a financial audit, so it cannot replace a financial audit as such.

56. Auditing (aligned support):

If alignment with the accountability system of the partner government is feasible, the donors will rely on the annual national financial statement 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 statement and the report should be prepared in accordance with acceptable auditing standards.

57. a. timing

The annual national financial statements and reports are normally audited by the Supreme Audit Institution (SAI). JFAs should contain a provision indicating a realistic schedule for submission of audited reports and who the government is required to submit the audit report to.

As far as this schedule is concerned, the first option is to use the audit procedures of the partner country as they are expressed in current legislation.

Should this not provide a workable option, the preferred timing can be based on other tools such as the Public Financial Performance Measurement Framework (PEFA). This is a comprehensive, internationally accepted performance measurement framework in public financial management from June 2005. Detailed information about PEFA is available at www.pefa.org. PEFA indicates 'good practice' score A (in a scale from A to D) if the national financial statements are submitted for external audit within six months after the end of fiscal year (Performance Indicator 25). Furthermore, PEFA indicates 'good practice' (score A) if the audit reports are submitted to the legislature within 4 months after receipt of financial statements (PI 26). The same deadlines can be used in the JFA, i.e. the audited financial statements and the audit report should be submitted without undue delay after expiry of the deadline 10 months after the end of the fiscal year.

However, best practice is not always possible and the JFA should take into account the country specific circumstances to ensure that timing is realistic.

58. b. assurance by the Supreme Audit Institution

If support is aligned and linked to specific sector plans/programmes, the financial statements should reflect the transactions financed by the donors under the JFA. This assurance may be provided by the Supreme Audit Institution, provided that the practices and procedures of the Supreme Audit Institution are considered acceptable.

59. c. private sector auditors

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 jointly decided upon in advance by all signatories. The ToR could be annexed to the JFA. See GPP, chapter 5

'Technical Guidance Notes' on financial statements and audit, including guidance on the preparation of ToR for external auditors.

While audit reports would normally be issued annually, more frequent reports or additional special audits may be required where particularly high risks have been identified.

60. d. joint donor decision-making

JFAs should contain a provision describing the procedure to be applied by donors for the assessment of audit reports. The 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 (concerning the decision-making process), individual donors may wish to deviate from this position. It may be necessary to indicate this in this paragraph.

The donors will enter into a 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 corrective action jointly decided upon.

61. Audit (not aligned support)

If alignment with the accountability system is not feasible, JFAs should include a provision stating that donors can (preferably jointly) undertake independent audits and reviews. Arrangements on donors' roles and commitments (e.g. the preparation of ToRs, the contracting of third parties, the participating donors, the sharing of reports and the scheduling of missions) should be described in detail in this paragraph.

Since not aligned support is concerned, the procedure for selection and instruction of the independent auditors is described in much detail here. If according to the signatories the partner country is to be given a degree of freedom, an alternative is to come to the understanding that the selection and instruction of the independent auditor will be arranged by the ministry of the recipient country, and the financial audit will be in accordance with mutually accepted (international or national) auditing standards. Generally acceptable standards are the International Standards on Auditing (ISA). The General Accepted Auditing Standards (GAAS), tend to show national differences and the suitability therefore should be assessed in individual cases.

Paragraph 11

Non-compliance, force majeure

62. Imposing sanctions

The non-compliance paragraph in the JFA consists of three main elements. The main element is the principle 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 impose 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/programme, unsatisfactory management, misuse of funds, or fundamental changes in the (political/economical/social) circumstances under which the national plan/programme 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 the grounds of efficiency and/or policy.

63. Type of sanctions

JFAs should make it clear what type of sanctions could be imposed in the case of serious violations by the partner government of the principal and other conditions and/or principles stated in the JFA that are considered fundamental for the development compact. Basically, donors may choose between the suspension or reduction of new disbursements, possibly in combination with the 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’. The reclaiming of funds is a rather severe measure and in principle only possible with regard to other financing modalities than general budget support. (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 the recovery of funds should always be a possibility in the case of non-compliance, irrespective of the modality of financing.) Claims for (partial or complete) recovery of funds could seriously disrupt the national budget and would be very damaging to the recipient country’s development process. To mitigate the adverse consequences of any such actions, gradual reduction or recovery of funds may be contemplated.

64. Joint donor decision-making on sanctions

Non-compliance clauses in JFAs should include procedures for consultation among the signatories. As the disruption of donor support may have serious consequences for the partner government’s macroeconomic planning and management, it is important to initiate timely consultations with the partner government. The imposition of 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 override 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

65. Corruption clause

The fight against corruption has a prominent place on the international development cooperation agenda. Donors and partner countries are paying 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.

66. Duty to inform

Transparency is considered 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. Where donors provide direct budget support, such a provision in the JFA should refer to the overall national (or relevant sector) budget.

Paragraph 13

Modification, donor accession and withdrawal

67. Accession of a new donor

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 by letter from the new donor to the partner government. The partner government must in turn 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 the JFA, either directly by the new donor itself or through the partner government. Additional donor funding will have to be assessed within the context of the funding obligations of the signatories as well as the absorptive capacity of the partner government.

68. Withdrawal of a donor

The JFA should describe the procedure to be followed if a donor decides to withdraw. The most appropriate procedure in this case would be for the donor in question to inform 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/programme/budgetary process, and therefore exercise care.

As withdrawal of donor support may have implications, possibly significant ones, for the overall funding of the national plan/programme, this may require revisions of the plan/programme. 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 not be reclaimed in such cases.

Paragraph 14

Dispute settlement

69. Amicable solution

Any dispute among the signatories should be resolved through consultations.

Paragraph 15

Entry into effect

70. Varying date

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 as the date of signing by the partner government and the donor concerned.

71. Duration of the bilateral document

While the JFA normally defines the duration of the overall donor support to the plan/programme/PRSP, the bilateral arrangements specify the period for use of the contribution from the donor concerned. As the period of operation of the JFA and the bilateral arrangements/agreements may not always fully coincide, a specific donor may still - formally - be a signatory to the JFA when its 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 signatories 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.

72. Amendments to the JFA

Other arrangements can be negotiated, as deemed appropriate. Amendments to the JFA, including its annexes, will be valid only if approved in writing by all signatories. Amendments to any of the other basic documents (e.g. the plan/programme/PRSP), not forming an integral part of the JFA, may be amended through consultations as referred to in the section on paragraph 4.

3

JOINT FINANCING ARRANGEMENT
between the
(insert full name of national Ministry),
and the Donor Group

The Signatories,

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/Programme'); 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 Annexe*)
2. WHEREAS the Ministry has committed itself to provide an agreed level of funding to the National Plan/Programme; the Donors have committed themselves to support the National Plan/Programme by providing 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, including the fight against corruption, which govern the domestic and international policies of the Signatories, are the fundamental principles on which the cooperation between the Signatories rests and which constitute essential elements of this JFA;

Have decided as follows:

Paragraph 1

(Goals of the Programme and scope of the JFA)

7. The (overall/*long-term/intermediate*) goal/objective(s) of the National Plan/Programme is/are ..., as stated in the (*specify name of*) ... document, dated The National Plan/Programme 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/Programme 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.*).

9. This JFA sets forth the jointly agreed terms and procedures for (*budget/financial*) support to the National Plan/Programme 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 the 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. In so far as specific provisions of a bilateral arrangement/agreement 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/Programme. 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 Annexe 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 Annexe 1 to the JFA.*)

Paragraph 2

(Responsibilities and representation)

12. The Ministry will be fully responsible for the implementation of the National Plan/Programme and for the management of the Donors' financial contributions. The Ministry will present financial statements in accordance with an identified and applicable financial reporting framework - International Public Sector Accounting Standards (IPSAS) or other mutually acceptable standards (national or international). The financial statements will show all sources of funding, with sufficient breakdowns of data to permit identification of individual sources of funds and disbursements on major activities or types of expenditure. The Ministry affirms that the contributions from the Donors will be used only to cover expenditures included in the state budget as approved by the parliament of (*name of partner country*) and only on expenditure on the National Plan/Programme. The Donors will not bear any responsibility and/or liability to any third party with regard to the implementation of the National Plan/Programme.

13. The Ministry will ... (e.g. description of specific responsibilities with regard to the implementation of *the National Plan/Programme*).

14. A prerequisite for the Donor's support of the National Plan/Programme 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 with each other fully and in a timely manner on all matters relevant to the implementation of the National Plan/Programme 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/Programme which is 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/Programme and, with a view to resolving 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/Programme 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 (name). The Central Bank will promptly credit the equivalent value 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 ... equivalent in 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, 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 process)

24. Regular consultations among the Signatories is considered critical to continued engagement by the Donors and effective implementation of the National Plan/Programme.

25. The Signatories will meet every (*indicate frequency*) to discuss the implementation of the National Plan/Programme. The meetings will be called and chaired by the Ministry/ (*optional: name of 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 statements and progress reports, audit reports; annual and medium-term plans and budgets; others*).

27. Indicate the Signatory responsible for submitting 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 (Annexe 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 (*number*) weeks after the meeting. The Donors will inform the Ministry of their approval/comments within (*number*) 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/Programme.

Paragraph 5 (Organisational structure)

31. Coordination between the Signatories will be organised through the following working group(s) to ensure proper planning, coordination and implementation of the National Plan/Programme:.... (*specify working group(s), e.g. sector coordinating committee, steering committee, sector working group etc.*).

Terms of Reference for the cooperation in this (these) working group(s) will be drawn up by (*specify e.g. sector ministry, institution*) and agreed jointly among the Signatories. Operating procedures will be included in the Terms of Reference.

32. The working group(s) will convene every (*e.g.*) 6 months. The main responsibilities of the working group(s) are (*e.g. to discuss the implementation of the National Plan/Programme, to review the operational plan priorities for the next fiscal year, ... etc.*).

33. The working group (s) will comprise representatives of the Donors and the Ministry (*optional: and sectoral ministry*). Each working group 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

(Financial management and disbursements)

34. The Ministry will perform financial management in accordance with sound financial management procedures including internal control mechanisms of mutually acceptable standards (national or international).

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

35. A common disbursement mechanism will be decided upon by the Ministry and the Donors before the start of the Ministry's fiscal year. It will take into account the national/sector budget and cash flow needs for the implementation of the National Plan/Programme. The Donors will coordinate the timing and amount of their respective disbursements in such a way that the cash flow needs of the partner government are satisfied and the common disbursement schedule is respected.

36. In their bilateral arrangements, the Donors will specify 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 Ministry's fiscal year.

(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).

37. 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)

38. The contributions of the Donors will be transferred in instalments upon receipt and approval of written payment requests and the applicable financial statements and progress reports. In determining the actual instalments the Donors will take into account the actual progress achieved and actual project/(programme) liquidity needs.

39. 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.

40. 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)

41. Alternative A *(in the case of full alignment with the partner government's procurement system)*

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

41. Alternative B *(in the case of aligned support, but with agreed appropriate additional safeguards and control measures and/or designated technical support)*

The Ministry will perform and is accountable for 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 the additional safeguards, control measures and/or technical support required)*. The costs of the control measures and/or technical assistance inputs will be borne by

41. Alternatives C and D *(if alignment with the partner government's procurement system and regulations is not feasible)*

The Ministry will perform all procurement in accordance with the World Bank 2004 Guidelines for Procurement under IBRD Loans and IDA Credits (as amended) *(alternatively, procurement regulations and guidelines from other sources could be used if they are considered to be more appropriate, e.g. those of the UN, Regional Development Banks, FIDIC, EU or bilateral donor countries)*.

41. Alternative E *(if a procurement agent is to undertake procurement)*

The Ministry will perform procurement through..... *(name of agent)*, who will undertake all procurement activities in accordance with the Ministry's regulations and procedures and in line with international good practice. The Ministry will contract the agent in accordance with its procurement rules. The Ministry will submit the contract with the agent to the Donors for *(approval/information)*.

41. Alternative F *(if procurement is undertaken directly by a donor or an agent on its behalf)*

(Name of Donor) will perform all procurement in accordance with its procedures and regulations. *(Name of Donor)* may engage *(name of agent)* to perform procurement on its behalf.

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

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

(if the recipient qualifies as a 'least developed country')

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

Paragraph 8 (Reporting)

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

The Ministry will provide the Donors with all information relevant to the implementation of the National Plan/Programme. Reporting will be based on the performance indicators described in the PAF. In particular the Ministry will provide the following reports (*list the reports required*):
(e.g.)

a) ... reports on budget execution, b) ... financial statements on the implementation of the National Plan/Programme, c) ... audit reports.

45. The reports will address the following items:

46. 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*)

47. The Ministry will submit in writing an annual/semi-annual report drawn up in (*state language*), in the agreed format (see Annexe .. 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 the allocation and use of the funds, problems encountered and/or anticipated and any other information relevant to the implementation of the project/programme.

48. The financial statements should compare the actual costs of activities for the current reporting period with the budgeted costs for the same period, and in the same currency. The financial statements 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)

49. The review process of Donors' support to the National Plan/Programme 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/Programme. Performance will be measured on the basis of the indicators described in the PAF.

50. 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 missions will accrue to ... *(e.g. the budget of the National Plan/Programme supported by the Donors)*.

51. Signatories will distribute all review/evaluation reports to one another promptly.

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

52. A joint *(e.g. annual)* review will be conducted in ... *(state date; review should preferably coincide with established national review mechanism)*. Copies of the review reports will be promptly shared with the Signatories not represented in the review mission. The costs of review missions will be borne by the Donors, unless otherwise decided by the Signatories.

(irrespective of alignment with partner system)

53. A joint evaluation will be conducted at the end of the programme if the signatories so decide. Copies of the evaluation reports will be promptly shared with the Signatories not participating in the evaluation. The costs of the evaluation will be borne by the Donors, unless otherwise decided by the Signatories. In conducting the evaluation, reference will be made to the Guidance for Managing Joint Evaluations, prepared by DAC's Network on Development Evaluation in 2006.

54. As far as possible, the Donors will refrain from conducting unilateral reviews/evaluations of the National Plan/Programme. However, when a Donor is required to conduct a unilateral review/evaluation, this Donor will consult with the other Donors in a timely fashion to discuss/reach a common position/decide on its 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 (e.g.) the annual report of the Supreme Audit Institution on the Public Accounts of *(name of 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 if private sector auditors are involved)

57. The Ministry will be responsible for contracting independent auditors. The Ministry will draw up their terms of reference and select the auditors 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 no later than 14 days before 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)

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/Programme.

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 continuation or discontinuation of its support.

62. Each Donor may suspend or reduce new disbursements or terminate its support to the National Plan/Programme 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/Programme 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 or non-compliance with agreed preconditions relating to the implementation of the National Plan/Programme).*

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 required, remedial or otherwise, or to inform the other Signatories of its intentions regarding the continuation or discontinuation of its support.

(force majeure provision, applicable to aligned and non-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/Programme. If the Donors consider suspending new disbursements, they will consult with the Ministry a reasonable length of time 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 Signatories will cooperate on preventing corruption within and through the programmes financed by Donors, and will require that the Ministry's staff and consultants under projects or programmes financed by Donors refrain from offering third parties, or seeking, accepting or being promised 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. The Signatories will take swift legal action to stop, investigate and prosecute in accordance with applicable law any person suspected of misuse of resources or corruption.

67. The Signatories will promptly inform each other of any instances of corruption as referred to in this paragraph and of the measures taken as referred to in the previous sub-paragraph.

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 or amendment of 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/Programme.

71. Upon a new Donor's written request and written acceptance of the terms and conditions of this JFA, the Ministry may, as an annexe to this JFA, give a Donor written authorisation to become a Signatory. The Ministry will consult with the other Donors in advance and furnish them with a copy of the letter of acceptance.

72. Each Donor may withdraw/terminate its support for the National Plan/Programme by giving the other Signatories (*e.g.*) three months' written notice. If a Donor intends to withdraw/terminate its support, that Donor will call for a meeting to inform the other Signatories of its decision (and to consult with them about the consequences for the National Plan/Programme).

Paragraph 14

(Dispute settlement)

73. If any dispute arises between the Signatories as to the interpretation, application or implementation of this JFA, they will consult 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 its signature by the (Ministry) and (*e.g.*) the Donor in question.

Checklist and preparation process for concluding 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 eighth 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, procurement option, 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 with-
in 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: Financial management and disbursements

- assessment of financial management and accounting procedures and systems;
- required documentation;
- procedures of approval and transfer of funds;
- disbursement schedule;

Paragraph 7: Procurement

- Assessment of procurement system;
- Choice of procurement option;
- Safeguards by donors;
- Procurement capacity development 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 and withdrawal

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

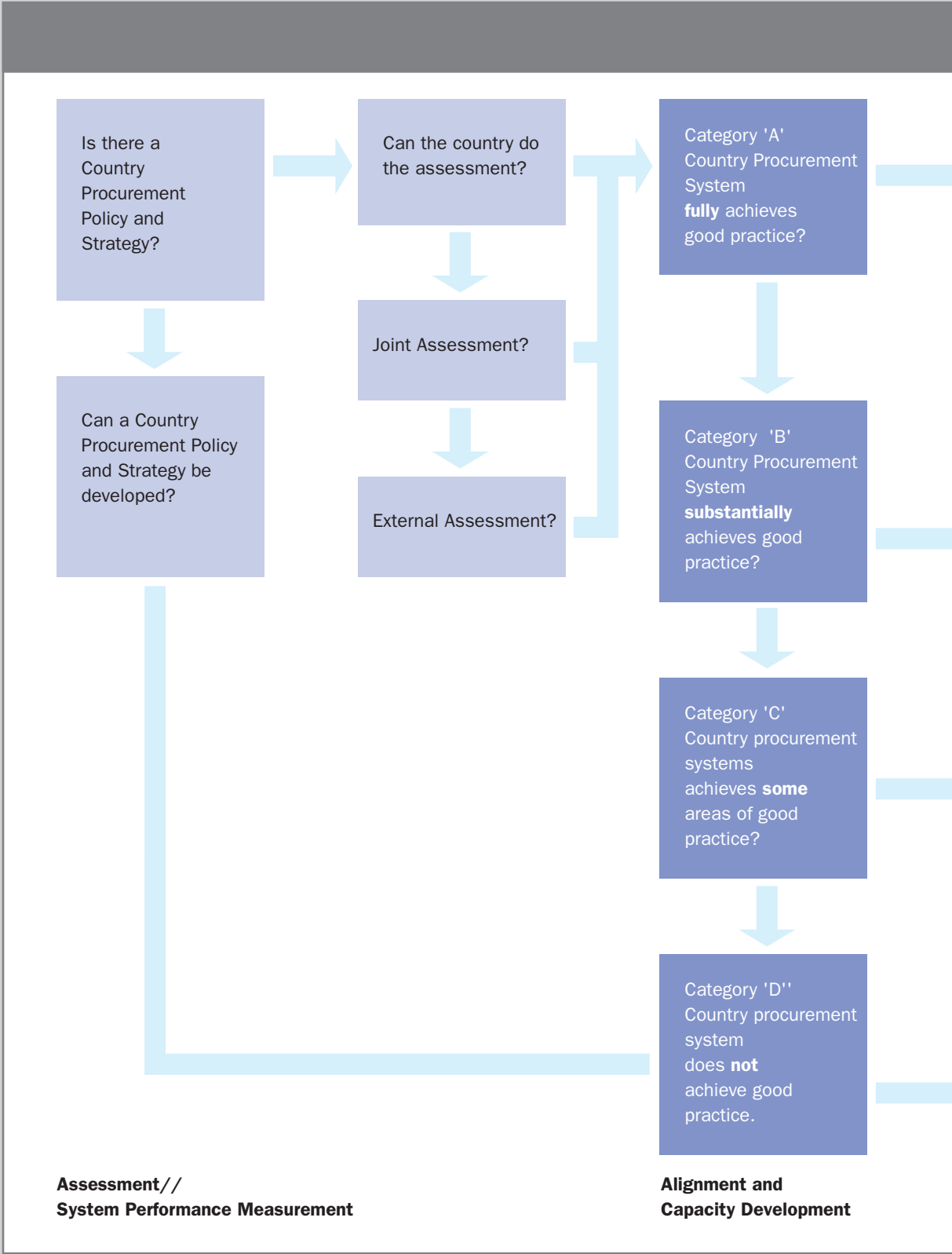
Paragraph 14: Dispute settlement

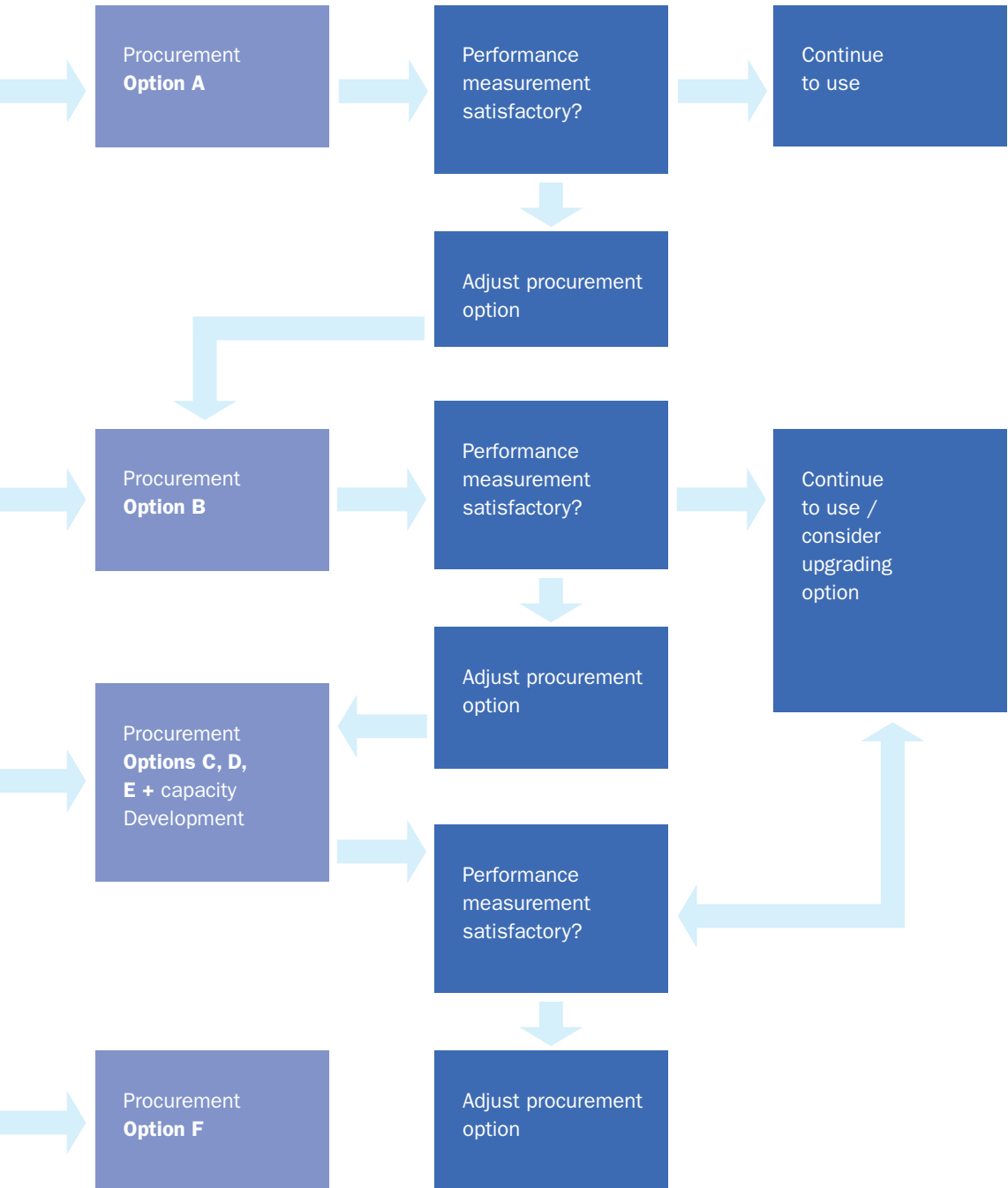
- procedure for dispute settlement;

Paragraph 15: Entry into effect

- procedures for coming into effect;

Signature





**Procurement Process Performance,
Monitoring and Evaluation**

List of major changes from the original Joint Financing Arrangement (2004) to the Practical Guide to Joint Financing Arrangements (2007 version)

The Nordic+ Joint Financing Arrangement (February 2004) has been assessed. This has resulted in a revised version, the Practical Guide to Joint Financing Arrangements (2007 version). Suggestions received from field practitioners have been used as much as possible.

The most relevant changes are:

1. The character of the Joint Financing Arrangement (JFA) has not changed: it is a versatile instrument that can be used for a broad range of aid modalities (budget support, the pooling of funds or projects). However, the JFA no longer covers joint financing co-operation (also known as silent partnership), since the Practical Guide to Delegated Co-operation has been developed in 2006.
2. The Nordic Plus Joint Procurement Policy (JPP) of the Nordic Plus group is included in the JFA (JFA template paragraph 7). The options A to F mentioned in the template refer to the options in the JPP. The JPP procurement option decision tree has been annexed to the JFA guide. This flowchart is a tool to help select the procurement option for a specific situation.
3. It has been accepted as a good practice to promote predictability among donors that in principle disbursements in a certain year (n) will not be based on the results achieved in the previous year ($n-1$) but the year before that ($n-2$).
4. The flexibility of the JFA has been improved as far as standards to be used for the financial management and accounting are concerned (JFA template paragraph 2, 6 and 10). The JFA now refers to mutually accepted standards (international or national) instead of prescribing the use of international standards. As a result the standards can more easily be tailored for conditions of the particular situation. Suggestions for (international or national) standards can be found in the JFA guide.
5. The anti-corruption clause (template paragraph 12) has been extended to include all signatories (instead of just the recipient country).
6. An effort has been made to make the JFA more user-friendly, e.g. by adding an index; rewriting the disbursement section and introduction of the guide; removing footnotes and changing the layout.

Prepared in 2004, and evaluated and revised in 2007, by the Civil Law Division of the Legal Affairs Department of the Dutch Ministry of Foreign Affairs, 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 of Foreign Affairs of Finland, Irish Aid, the Norwegian Agency for Development Cooperation (NORAD) on behalf of the Norwegian Ministry of Foreign Affairs, the Swedish Development Cooperation Agency (SIDA) and the Department for International Development of the United Kingdom (DFID).

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