

# **GOOD PRACTICE NOTE FOR DEVELOPMENT POLICY LENDING**

Budget Support Groups and  
Joint Financing Arrangements

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**THE WORLD BANK**



These Good Practice Notes are intended to provide guidance to staff in the preparation of development policy operations and are not mandatory policy documents. Their content will be updated periodically to reflect the lessons of experience. For further updates and other good practice notes, please check the Operations Policy and Country Services (OPCS) website under development policy lending.

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**GOOD PRACTICE NOTE FOR DEVELOPMENT POLICY LENDING:  
BUDGET SUPPORT GROUPS AND JOINT FINANCING ARRANGEMENTS**

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# BUDGET SUPPORT GROUPS AND JOINT FINANCING ARRANGEMENTS

## I. INTRODUCTION

1. This note provides guidance to World Bank staff on good practice in developing a **Memorandum of Understanding (MOU)**—also sometimes known as a **Partnership Framework** or **Joint Financing Arrangement**—between a borrowing member government and the government’s donor partners, including the World Bank, who provide aid in the form of “budget support.” It also discusses implementation of MOUs through budget support groups. The note focuses on the approach to MOUs and budget support groups in IDA-eligible borrowers, where these mechanisms have been most prevalent, but the underlying principles also apply to IBRD-eligible borrowers. The content of the Good Practice Note on MOUs will be updated periodically to reflect the emerging new lessons and best practice.

2. **Purpose of the MOU.** The MOU is an informal tool used to document government and donor partner commitments on harmonization and alignment of budget support programs. MOUs do not constitute legally binding obligations on the Bank or any other signatory. MOUs have now been agreed for several countries, and links to these documents are provided at the end of this note. One of the main purposes of an MOU is to help strengthening of donor coordination and harmonization, with a view to enhancing the effectiveness and efficiency of budget support programs to achieve governments’ poverty reduction goals. Based on early experience with the content and format of these MOUs, this note summarizes guiding principles for the drafting of such MOUs and provides a template for an MOU (see Annex 1). However, experience in this area is still evolving and each MOU has taken a different approach based on individual country circumstances. It is clear that in all instances, the substance and format of an MOU and the functioning of a budget support group should be adapted to the situation in the country.

## II. WORLD BANK APPROACH TO BUDGET SUPPORT

3. World Bank development policy lending (DPL) is governed by Operational Policy (OP) 8.60, *Development Policy Lending*. DPLs provide rapidly disbursing policy-based financing in the form of loans, credits, or grants to support a government’s program of policy and institutional actions (Box 1).<sup>1</sup> DPLs which provide financial assistance directly to a partner country’s budget on a regular basis, use the country’s own financial management systems and budget procedures, and are not tied to specific expenditures,<sup>2</sup> are commonly referred to as “budget support.”

### Box 1. Development Policy Lending

World Bank development policy lending aims to help borrowers achieve sustainable reductions in poverty by supporting a country’s program of policy and institutional actions that promote growth and enhance the well-being of poor people (e.g., actions to improve the investment climate, diversify the economy, or create employment).

The Bank determines the appropriateness of such support in the context of the Country Assistance Strategy, and the decision to extend such support is based on an assessment of the country’s policy and institutional framework, including the country’s economic situation, governance, environmental/natural resource management, and poverty and social aspects. The Bank considers the strength of, and country’s commitment to, the program against its track record; it assesses the country’s institutional capacity/ability to implement the program, and describes relevant capacity-building efforts.

<sup>1</sup> See [OP 8.60](#), *Development Policy Lending*.

<sup>2</sup> OP 8.60 does allow for the provision of specific arrangements to address fiduciary risks. Budget support in this context does not refer to Sector-wide Approaches, which the World Bank supports through investment lending.

4. ***Programmatic Approach.*** Programmatic approaches refer to a series of development policy operations that are embedded in an adaptable, medium-term framework, with notional lending amounts and review dates linked to a country’s policy and budget cycle. Programmatic DPLs are being extended to IBRD- and IDA-eligible borrowers alike. Where they used to support a well-performing IDA-eligible government in implementing its poverty reduction strategy (PRS), they are usually labeled as Poverty Reduction Support Credits (PRSCs).<sup>3</sup>

5. ***Government Program vs. DPL Program.*** The government’s program may include areas or actions outside of the Bank’s expertise or mandate, such as security issues in fragile states emerging from crisis/conflict. The Bank’s program documentation in such cases distinguishes between the overall government program and actions supported by Bank lending. In the context of a multi-donor program of budget support, other donors with expertise in these areas can provide support, and Bank staff would refer to these activities in the documentation to underpin the feasibility and comprehensiveness of the overall program. Staff should also refer to the companion good practice note, *Development Policy Operations and Program Conditionality in Fragile States*, for more specific guidance on the provision, design, and operating principles associated with DPLs in fragile states.<sup>4</sup>

6. ***Objectives of Budget Support.*** Key expectations, objectives and considerations associated with budget support include *inter alia*<sup>5</sup>:

- Strengthening country ownership and accountability
- Supporting institutional capacity building
- Improving predictability of funding
- Encouraging greater results orientation
- Reducing transaction costs
- Promoting donor coordination and harmonization
- Allowing for scaling up, supporting policy changes and partnership-based approach based on mutual accountability
- Strengthening of governments’ public financial management systems and budgetary processes
- Alignment with CAS, other donors and the government budget cycle.

### **III. DONOR HARMONIZATION AND BUDGET SUPPORT GROUPS**

7. Joint Financing Arrangements aim to facilitate donor coordination of budget support. Notwithstanding the relative share of the World Bank’s contribution, it is advisable for the Bank to closely coordinate the content, timing and approach of its development policy operations closely with other development partners. OP 8.60 states that, “In preparing development policy

<sup>3</sup> See *Poverty Reduction Support Credits: A Stocktaking*, OPCS, World Bank, 2005. Access the OPCS website for more information on: [programmatic lending](#), [PRs](#), and [PRSCs](#).

<sup>4</sup> The note is accessible on the [OPCS website](#). Staff should also refer to *Principles for Good International Engagement in Fragile States*, OECD, April 7, 2005, accessible at <http://www.oecd.org/dataoecd/59/55/34700989.pdf>.

<sup>5</sup> See also *Good Practices in Budget Support*, Harmonising Donor Practices for Effective Aid Delivery Vol. 2, Chap. 2, Working Party on Aid Effectiveness and Donor Practices, OECD-DAC, January 24, 25, 2005.

operations, the Bank collaborates with the IMF and other international financing institutions and donors, as appropriate, while retaining responsibility for its financing decisions.” In practice, governments and budget support donors (and other donor partners in the country) are finding it useful to work as a group to realize these objectives, which are in line with agreements coming out of high-level forums on aid effectiveness (see Box 2). At the 2005 Paris High-Level Forum, donors reinforced their commitment to working toward common arrangements for financing, disbursements, monitoring and evaluation, and the reduction of duplicative missions and diagnostic reviews by introducing a series of indicators to track progress on these and other areas.<sup>6</sup> MOUs and budget support groups, particularly in IDA-eligible borrowers, are expected to play a key role in furthering progress on the donor harmonization agenda.

### **Box 2. International Commitment to Donor Harmonization**

As part of the follow-up to Monterrey, the international development community committed in Rome to align development assistance with partner country strategies, harmonize donor policies and procedures, and implement principles of good practice in development cooperation (February 2003). The core principles of the **Rome Declaration** were put forward at the Marrakech Roundtable on Managing for Development Results (February 2004) where participants reaffirmed their commitment to foster a global partnership on managing for results by aligning cooperation programs with desired development results, and relying on and strengthening partner countries’ monitoring and evaluation systems to track progress and assess outcomes.

At the Paris High Level Forum on Harmonization, Alignment, and Results in March 2005, Ministers, heads of agencies and senior representatives from 90 countries and 27 development agencies adopted the **Paris Declaration on Aid Effectiveness**. The Paris Declaration recognized that progress has been made toward greater harmonization and alignment of donor assistance in recent years, and lays out an ambitious agenda for further actions in support of greater aid effectiveness. Participants to the Forum agreed on 12 indicators to measure progress in implementing aid more effectively at the country level and as a further spur to progress, there was agreement to set quantifiable “targets” for 2010. The implementation of the Paris Declaration will focus on:

- Strengthening partner countries’ leadership in developing and implementing results oriented national development strategies and associated operational programs.
- Working together to establish mutually agreed frameworks that provide reliable assessments of performance, transparency, and accountability of country systems in public financial managements, procurement, fiduciary safeguards and environmental assessments, in line with broadly accepted good practices.
- Increasing alignment of donors’ support with partner countries’ priorities, systems, and procedures, and helping to strengthen the national development capacities through coordinated donor programs and avoiding duplicate structures to manage aid-financed activities.
- Strengthening partner countries’ institutions and systems and progressively relying on transparent country systems.
- Providing more predictable and reliable commitments of aid over a multi-year framework according to an agreed schedule.
- Making progress to untie aid to increase its effectiveness by reducing transaction costs for partner countries and improving country ownership and alignment.
- Increasing the use of program-based aid modalities to implement common arrangements for planning, funding, disbursements, monitoring, evaluating and reporting to government on donor activities and aid flows.
- Making greater efforts to reduce the number of separate, duplicative missions to the field and diagnostics reviews and promote joint training to share lessons learnt and to build a community of practice.
- Establishing results-oriented reporting and assessment frameworks that monitor progress against key dimensions of the national and sector development strategies.
- Enhancing donors’ and partner countries’ respective accountability to their citizens and parliaments for their development policies, strategies, and performance by using country level mechanism that are undertaken jointly or by an independent group.

Consistent with the focus on implementation, two rounds of monitoring the achievements of agreed targets will be undertaken before the next High Level Forum is held in 2008 in a developing country to review progress.

<sup>6</sup> See [Paris Declaration](#) (March 2005); for more information on the donor harmonization agenda see [www.aidharmonization.org](http://www.aidharmonization.org).

8. **Characteristics of Donor Harmonization.** Harmonization of budget support entails a concerted effort between budget support donors and the government to reduce transaction costs in terms of time, effort, reporting and monitoring, by engaging in a consistent, ongoing policy dialogue and aligning the support with country's PRS. Key characteristics include: (i) assessing country performance and making subsequent disbursements against a common evaluation framework (often called a Performance Assessment Framework) that draws the performance benchmarks and targets from the PRS; (ii) participating in joint donor missions; (iii) harmonizing donor reviews and simplifying procedures and; (iv) aligning disbursements to correspond with recipient countries' budget cycle. In this respect, MOUs outline mutual obligations of countries and their partners in the PRS process.<sup>7</sup> MOUs aim to facilitate early commitments of aid, integration of these commitments into the budget formulation process, and predictability of aid disbursements within the fiscal year.

9. **Budget Support Groups.** Where multiple donors provide budget support in selected countries, Budget Support Groups (BSG) may provide a degree of harmonization of donor efforts around country-led programs. BSG have emerged as a mechanism for enhancing collaboration, coordination, and harmonization of budget support programs and associated procedures and processes, e.g., as set out in an MOU. Emerging good practice principles for the operation of budget support groups include:<sup>8</sup>

- **MOU.** An MOU or similar document may be a useful approach to formalizing the objectives and procedures of the budget support group, particularly if there are many donors. However, it is not a necessary document if a country already has a robust division of labor among donors or there is a clear but informal understanding among donors.
- **Donor Alignment.** Donors in budget support groups should, as far as possible, harmonize with each other, align their budget support processes with the national PRS and budget calendar, and draw monitoring indicators and disbursement prior actions and triggers (conditions) from the PRS or Annual PRS Progress Report (APR).
- **Alternative Programs.** Where PRSPs and APRs are not sufficiently operationalized and prioritized, or where the government seeks a more specific implementation framework, more specific programs need to be agreed as the result of a transparent and coordinated process in which the government has time to review and consider alternative policy options.
- **Actions/Triggers.** Disbursement actions/triggers and monitoring indicators may be policy actions, inputs, outputs, or outcomes, should be incorporated in a single matrix—often referred to as a performance assessment framework (PAF)—ideally drawn from the government's PRS. Actions/triggers and monitoring indicators in the PAF should be limited in number, reflecting only those crucial to the government's implementation of its program. They should be as specific, credible, and easily monitorable as possible. The need for keeping the size of the PAF manageable requires careful prioritization among potential triggers and actions to be included.

<sup>7</sup> For a more extensive discussion, see *Poverty Reduction Support Credits: A Stocktaking*, OPCS, World Bank, 2005.

<sup>8</sup> Drawn from the Strategic Partnership with Africa [Budget Support Working Group](#), Report on Kigali Workshop, June 16-18, 2004.

- **Program Assessment.** Donors should be clear about how they will assess progress against disbursement actions/triggers and how they will respond to performance and underperformance. Allowing flexibility for different donors to respond differently to performance mitigates the risk of all aid flows to the recipient government being simultaneously delayed or suspended. Donors should not use this flexibility to expand the size of the PAF or as an excuse for non-harmonization.
- **Rotating Chairmanships.** Rotating chairmanship arrangements, an annual report to government on donor compliance with MOU principles, and establishment of a (donor-funded) group joint secretariat may improve efficiency and reduce transaction costs.
- **Membership Rules.** Establishing rules for membership of the budget support groups is useful. Typically, it makes sense to focus on donors that are actually providing budget support.

10. **Remaining Challenges.** In practice, budget support groups are facing many challenges, including (i) limiting the size of the PAF; (ii) handling governance and public finance management concerns and designing measurable indicators or benchmarks in this area; (iii) providing transparent and predictable mechanisms for reaction to underperformance; and (iv) managing tensions between “big” and “small” donors within the group. MOUs can be a useful tool to set a clear framework for managing these challenges and thus be a useful tool to further harmonization efforts.

#### IV. OPERATING PRINCIPLES FOR MOUS AND BUDGET SUPPORT GROUPS

11. MOUs setting out basic arrangements for the provision and implementation of budget support, and the establishment and functioning of budget support groups have been agreed in a variety of countries (see links at the end of this note). These documents outline *inter alia* the responsibilities of government and donor signatories, underlying operating principles, review mechanisms and timing, processes for dialogue, and financial, monitoring, and auditing arrangements. Each MOU takes a slightly different approach based on country circumstances. However, to guide World Bank staff involved in the drafting of such MOUs, some emerging good practice principles are outlined below. Experience is evolving and this note will be updated from time to time to reflect good practice.

12. **Objectives and Participants.** Overall, the focus of the MOU should be on the procedural and economic development aspects of the provision of budget support. The MOU should be consistent with, and not contradict any operational program documents or the government’s Letter of Development Policy (LDP). Teams should consider the following areas when developing an MOU:

- **Objectives.** Include a clear statement of objectives. The MOU should aim to enhance the harmonization of budget support programs to help the government achieve its poverty reduction goals. This includes reinforcing cooperation between the government and development partners to achieve more efficient and effective use of external aid, harmonizing development partners’ policies and procedures in order to minimize transaction costs, agreeing to common benchmarks against which performance are assessed, improving the predictability of aid flows, and supporting the country’s institutional development. *See, for example, [Cape Verde](#), Section 1;*

[Ghana](#), paras 2.3-2.5, & 3.2; [Malawi](#), Sections 3 & 4; [Mozambique](#), Preamble, Sections 1 & 2; [Rwanda](#), paras 1-2; [Tanzania](#), Section 1; [Uganda](#), Section 1.

- **PRS as Basis for Support.** In line with the objectives of the MOU, indicate that the country's PRS or equivalent national development strategy serves as the foundation upon which donors agree to base their provision of budget support. *See, for example:* [Ghana](#), para 1.1, Section 3; [Malawi](#), Section 4; [Rwanda](#), paras 1-2.
- **Participants.** Spell out the criteria for participation in the MOU. In the spirit of partnership and harmonization, but depending on country circumstances, the MOU may allow some flexibility for donors (even non-budget support donors) to become signatory or observer. Participation should not obligate a signatory to provide financial resources in any particular amount, though it should be clear that all signatories are expected to respect the spirit of the agreement. Consideration should be given to defining carefully the roles and responsibilities of "full members" of the budget support program versus those of observers, which may include non-budget and non-financial contributors and/or the IMF. *See, for example,* Cape Verde, Section 2; Ghana, para 2.2; Malawi, Section 2; Mozambique, Section 13.

13. **Operating Principles.** In developing an MoU best practice suggests that Budget Support groups should incorporate the following operating principles:

- **Precedence of Bilateral and Multilateral Agreements.** Respect institutional governance structures and binding institutional constraints. Include a clear understanding that each donor partner has its own internal processes that need to be respected and followed. Indicate that bilateral or multilateral agreements take legal precedence over the MOU and that agreements reached within the MOU framework are subject to review and revision until approved by relevant authorities (e.g., parliaments in the case of bilateral donors, Executive Boards in the case of multilateral financial institutions). Generally, MOUs also reaffirm clearly that ultimate decisions for disbursements rest with the individual donor. *See, for example:* [Ghana](#), para 1.2; [Rwanda](#), para 3.
- **Government Responsibilities.** Spell out clearly and succinctly the responsibilities of the government. This includes, inter alia, reporting requirements, such as annual progress reports under the PRSP framework. Reporting requirements generally ensure that budgetary resources are allocated and spent in line with poverty reduction objectives. Often governments also commit to improving their monitoring and evaluation system. Finally, governments should retain the primary responsibility for coordinating and organizing the budget support group meetings and lead the regular dialogue with donor partners. If the Governments view the national review process (APR or similar) as the key instrument around which donor budget support conditions should be aligned, they should commit to provide the information that meet donor needs (e.g. reporting on key policy actions and key indicators). *See, for example:* [Cape Verde](#), Section 5; [Ghana](#), Section 6; [Rwanda](#), paras 11, 17, 28; [Tanzania](#), Section 5.
- **Donor Responsibilities.** Spell out clearly and succinctly distinct accountabilities of donor partners vis-à-vis the government and each other. In line with government preferences, and donors' comparative advantages, indicate if there will be a lead

agency in a particular sector, or whether there is another agreed upon division of labor among donors and the government. Sharing information on relevant operations with other donors and clear agreement on roles should therefore be an integral part of donor responsibilities. *See, for example: [Cape Verde](#), Section 6; [Ghana](#), Section 7 and Technical Annex, Section 7; [Rwanda](#), paras 12, 18, 24, 29; [Tanzania](#), Section 6.*

- ***Timing of Disbursements, Commitment Levels.*** Generally, MOUs describe how and at what time donors inform the government of the indicative budget support volume, conditions for disbursements, and planned timing and sequencing of support. In this respect, donor partners should seek to indicate as clearly as possible the timing/cycle of budget support in order to improve in-year, short-term and medium-term predictability of funding. Whenever possible, program budget support should indicate future commitment levels at an early date and should be provided over a multi-year timeframe. For the Bank the primary vehicle for setting a medium support framework would be the country assistance strategy (CAS), and communications of financial support within budget support groups should be consistent with the CAS. Throughout the annual budget implementation during the course of the fiscal year, the budget support groups should serve to co-ordinate the timing of their disbursements in line with the government's budgetary cash-flow requirements. *See for example: [Mozambique](#), Section 8; [Rwanda](#), para 12 (first bullet); [Uganda](#), Sections 4 & 5.*
- ***Performance Assessment Framework (PAF).*** The MOU should include a process to develop a PAF setting out an internally consistent, concise and monitorable set of key policy actions, output and outcome indicators, as appropriate, to gauge successful implementation of the government's program. The different performance measures could be used to condition disbursements and, if possible, should be drawn directly from government's program as outlined in its PRSP. The MOU should allow donors to tie their disbursements to a subset of the performance framework that reflects areas of their technical expertise or interests, but the MOU would as a general principle suggest that indicators outside the agreed framework should not be added. In developing the PAF, budget support groups should focus on disbursement triggers that are simple, prioritized, measurable on a yearly basis and linked to government's policies and longer-term poverty reduction objectives. The PAF should be revised on an annual basis through a review cycle and in line with the government's progress in implementing its reform program, as updated in the APR.
- ***Adjusting Disbursements to Country Performance.*** Improving predictability and enhancing the government's macroeconomic management also requires donors to be transparent about the circumstances/criteria under which aid flows may be withheld or reduced and the process used to communicate donor assessments to the government. Ideally disbursements would be adjusted or withheld based on a coordinated or joint assessment of overall performance in the context of an annual review process. However, the MOU should allow individual donors to ultimately make their own decision whether to delay or reduce funding, and by how much. (For example, each donor may give different weights to the different performance indicators in the PAF in making ultimate disbursement decisions.) The budget support group's main coordinating role in dialogue with the government during the annual review would be to ensure that joint disbursement volumes be announced sufficiently early in the budget cycle, and that joint reductions not be destructive for

macroeconomic performance while preserving their signaling role. *See, for example: Ghana, Section 5, Technical Annex, Section 5, and Appendix 1; Mozambique, Section 5 and Annex 3; Tanzania, Section 3 & PAF MOU; Uganda, Section 3.*

- **Reviews.** The MOU should spell out clearly the review process to be followed and define when triggers for disbursement and performance assessment frameworks are being established during the review cycle. Donor reviews should ideally be carried out jointly and be rationalized in the context of PRS/APR reviews and preparation, as well as sectoral and other relevant reviews. A common reporting framework should also specify the number and length of review missions. . If a country has specified a reasonable “silent period” in which donor missions would not be accommodated, this should be noted and respected. The review process should ideally allow time for dialogue is important when performance appears to be faltering, to provide an opportunity for problems to be resolved before disbursements are affected, and include a mechanism to handle disagreements over the assessment of performance, particularly when achievements fall short of expectations. *See, for example: Cape Verde, Section 3; Ghana, Sections 4 and Technical Annex, Section 4; Mozambique, Section 5 and Annex 3; Rwanda, Section 4.1; Tanzania, PAF MOU, Section 3; Uganda, para 2.2.*
- **Reporting.** The MOU should spell out clearly the reports to be used as a basis for reviews and performance assessment. Arrangements that provide for adequate accountability should be mutually acceptable for donors and partner governments and build reporting systems on existing institutions and use country monitoring and evaluation systems wherever possible. Reporting requirements should be kept to a minimum, harmonized among donors and, to the extent possible, linked with APR and budget reviews. In the context of budget support groups donors would work together with partner countries towards common formats, content and frequency of periodic reports that meet the needs of all partners. *See, for example: Ghana, Sections 4 and Technical Annex, Section 4; Mozambique, Section 4 and Annex 2; Tanzania, PAF MOU, Section 4; Uganda, para 2.3.*
- **Provision of Capacity Building/Technical Assistance.** To address the challenge of weak institutional and human capacity, which in turn affects the country’s absorptive capacity for external aid and its ability to implement its reform program, MOUs can indicate donors’ intentions to provide specific assistance for capacity building and technical assistance in line with the government’s program. The budget support group would serve as a vehicle to coordinate technical assistance and capacity building. The latter may be a primary reason to associate non-budget support donors to some of the activities of the budget support group. *See, for example: Ghana, Technical Annex, Section 3; Malawi, Section 4 (last para); Rwanda, para 24 (third bullet).*
- **Calendar.** MOUs commonly include a generic calendar showing the timing of reporting, reviews, assessments, disbursements, commitments, and so on. *See, for example: Mozambique, Annex 4; Rwanda, Annex 1; Tanzania, Appendix (Section 7).*
- **Audits.** MOUs often specify whether the regular audits of the budget are to be furnished by the country, and include the possibility for signatory donors to request external audits. Such audits should not affect each individual donor’s independent

right to require a borrower to undertake an audit if required as part of an operational legal agreement with the borrower, however to the extent possible, donors should ensure that joint auditing requirements also meet their individual needs. See, for example: Ghana, Technical Annex, Section 6; Mozambique, Section 9; Tanzania, PAF MOU, Section 5; Uganda, Section 6.

- ***Evaluation.*** MOUs could indicate how the functioning of and progress in implementing the MOU will be evaluated, by whom, and at what frequency, including whether the MOU will be reviewed and updated on a regular basis (e.g., annually, every three years, etc.). The evaluation should include a review of donor and government performance against stated commitments in the MOU.
- ***Entry into Operation and Amendments.*** MOUs should indicate the date the MOU becomes effective and how the MOU would be amended. In addition, it would indicate how differences among signatories regarding any matters included in the MOU shall be settled (e.g., by mutual discussions and negotiations), without prejudice to signatories' legal rights under applicable legal agreements with the borrower or recipients. In some cases, signatories may need to agree to disagree. See, for example: Cape Verde, Sections 8, 11, 12; Malawi, Sections 9 & 10; Mozambique, Section 14.
- ***Termination.*** MOUs need to spell out procedures for termination of membership/participation in the MOU. See, for example: Cape Verde, Sections 9-10; Ghana, Section 9; Uganda, Section 7.

14. ***Bank Preparation Cycle.*** Bank preparation cycles should be aligned as closely as possible with the agreed review cycle. Experience suggests that the annual reviews in budget support programs should normally coincide with pre-appraisal of an operation. Based on the outcome of the review, the team would then seek corporate approval (through the regional or Bank-wide operations committee) for the proposed operation, including disbursement amounts. The operation would then be fully appraised and negotiated based on the outcome of the annual review and proposed to the Executive Board for final approval.

#### **LINKS TO SIGNED MOUs**

Most of the MOUs listed in this note are accessible at:

<http://www.aidharmonization.org/ah-cla/secondary-pages/cla-actionCountryMOU>

- [Burkina Faso](#) (Annex 12; January 2005)
- [Cape Verde](#) (Annex 10, starting p.114; January 2005)
- [Ghana](#) (May 2003)
- [Malawi](#) (May 2003)
- [Mozambique](#) (November 2003)
- [Rwanda](#) (November 2003)
- [Tanzania](#) (November 2002)
- [Uganda](#) (May 2003)

## **DRAFT TEMPLATE — BUDGET SUPPORT MOU**

**Following is a draft template  
for a budget support MOU.**

**It is provided to help guide  
World Bank staff involved  
in drafting such MOUs.**

**Its contents should be adapted  
as necessary to individual  
country circumstances.**

**It is good practice to involve  
the country lawyer in the  
drafting of an MOU  
as early as possible.**

**MEMORANDUM OF UNDERSTANDING (MOU)**

**PARTNERSHIP FRAMEWORK FOR A  
COMMON APPROACH TO BUDGET SUPPORT BETWEEN  
THE GOVERNMENT OF [COUNTRY] AND DEVELOPMENT PARTNERS**

**I. Introduction**

1.1 This document sets forth a Partnership Framework for a common approach to budget support between the Government of [Country] and development partners.

1.2 The purpose of budget support is to assist the Government of [Country] in implementing its Poverty Reduction Strategy (PRS), with the ultimate goal of reducing poverty. As the budget will be the central tool used by the Government to reach its development objectives as spelled out in the PRSP, development partners have agreed to provide an increasing share of their overall support to the Government in the form of budget support.

**II. Objectives**

2.1 The main objective of this Partnership Framework is to harmonize donor partners' budget support programs, reinforcing the cooperation between the Government and its development partners, to increase the effectiveness and efficiency of external aid while supporting the institutional development of [Country]. This includes: harmonizing, to the extent possible, development partners' processes and procedures so as to maximize the reliance on country systems and minimize transaction costs for the Government and development partners; enhancing dialogue between the Government and development partners in order to link funding commitments to the Government's development priorities as set out in the PRS; and increasing the predictability (both in timing and amount) of budget support/donor aid flows.

**III. Participants**

3.1 The participants in this Partnership Framework include the Government of [Country], represented by \_\_\_\_\_, and the following development partners: *[list signatory development partners and who they are represented by; for example]*

DFID/United Kingdom, represented by \_\_\_\_\_;  
The European Commission, represented by \_\_\_\_\_;  
The World Bank, represented by \_\_\_\_\_;  
[Others as relevant].

3.2 Additional development partners who wish to join this Partnership Framework may do so, with the consent of the Government, by notifying all signatories in writing. Participation in this Partnership Framework does not obligate signatory development partners to provide financial resources, whether in the form of budget support or not, in any given year. However, it does imply that signatories will respect the spirit of this arrangement. *[The role of non-budget support donor signatories should be spelled out, e.g., full membership, observership, depending on country circumstances.]*

## **IV. Operating Principles**

### ***Precedence of Bilateral and Multilateral Agreements***

4.1 This Partnership Framework will be supplemented by bilateral or multilateral financing agreements, which take legal precedence over the Partnership Framework. Ultimate approval of the provision of budget support, and the circumstances/conditions under which it is provided, rests with the respective development partner's parliament (in the case of a bilateral donor) or Board (in the case of a multilateral donor), and conditions may be subject to review and change up to the time of approval. With due regard to the separate accountability of each development partner, signatory partners will, however, endeavor to establish financing agreements that are compatible with the spirit and provisions of this Partnership Framework.

### ***Responsibilities of the Government***

4.2 This Partnership Framework is based on the understanding that the Government will:

- Ensure that total expenditures and sector allocations effectively reflect the country's budget in general, and the poverty reduction commitments set out in the PRS in particular;
- Implement macroeconomic policies consistent with stabilization and growth;
- Monitor and report on the effective implementation of the budget and on progress in achieving performance indicators by providing the information and reports indicated above;
- Take agreed steps aimed at strengthening of the country's systems (e.g., financial management, procurement) for greater development effectiveness of public expenditures and enhanced transparency and accountability.

### ***Responsibilities of Donor Partners***

4.3 The signatory development partners are committed to working in partnership with the Government to facilitate implementation of its PRS, both through budget support and through complementary support provided through partners' wider programs. To the extent possible within existing administrative and statutory provisions, including bilateral financing arrangements with the Government that ultimately govern decisions on commitments and disbursements, development partners commit to:

- Provide information on future budget support commitment levels as early as possible in the Government's budgeting and planning process, in order to enhance predictability of aid flows;
- Endeavor to align commitments with the Government's budgetary requirements and, to this end, to assist the Government in developing a results-oriented MTEF to help strengthen the Government's overall budgeting and planning process;

## Annex 1 – Draft Template

- Endeavor to align disbursement of budget support with the Government’s budgetary cash-flow needs;
- Base funding commitments for the next budget year on performance measures derived from PRS objectives and priorities, as captured in the policy matrix/PAF;
- Organize, in close collaboration with the Government, joint missions to review and assess implementation of objectives under the PRS;
- Establish a Development Partners Group that will meet regularly to coordinate information and inputs of development partners (general terms of reference for the Group are attached).
- Work toward a coordinated or common pool fund mechanism for financing capacity building and technical assistance (TA) so that the Government can budget for and program capacity building and TA necessary to implement its reform program.

### *Performance Assessment Framework*

4.4 Based on priority areas and sectors identified by the Government in its PRS, the Government and development partners will agree on a set of performance indicators, expressed in a common, Government-owned policy matrix, known as the Performance Assessment Framework (PAF). The PAF will inform the policy dialogue between the Government and development partners, will be used as a basis for judging Government performance against the agreed criteria/indicators, and will be updated in the context of the annual PRS Progress Report, or more frequently (as relevant) in the context of sector and other reviews. *[Ideally the PAF should be a manageable subset of the Government’s PRS policy matrix.]*

4.5 External development partners will strive to make their bilateral agreements with the Government consistent with the PAF, but retain the flexibility to emphasize certain (but not all) aspects of the PAF. While the Government and development partners may have a continuing dialogue about progress based on the PAF, each development partner will base its respective budget support commitments and disbursements on its own assessment and evaluation of the Government’s progress in implementing bilateral commitments under the PRS, or on other factors as agreed with the Government. In the event of a dispute on the status of the Government’s progress under the PAF, signatories will consult with one another in an attempt to come to agreement. If a signatory partner determines Government progress to be inadequate in an agreed area and signatory development partners are unable to come to agreement on the status of the Government’s progress, the partner retains the flexibility to adjust levels of support accordingly, or to reformulate its agreed program with the Government. The signatory partner should keep the other development partners informed of its actions in this regard.

4.6 In defining and monitoring the general performance indicators and the bilateral commitments, external development partners will rely, to the extent possible, on the country’s own systems in terms of statistics, budget management, medium term expenditure framework (MTEF), fiduciary arrangements for financial management and procurement, and monitoring and evaluation.

***Reviews and Reporting***

4.7 Regular dialogue between the Government and development partners to review progress in implementation of the PRS, and associated PAF, and the strengthening of the country's systems is critical for the sustained provision of budget support. As such, a calendar with the proposed work program and associated review meetings—based on the Government's budget preparation cycle—is attached. This calendar will be updated and revised as necessary based on experience and evolving circumstances.

4.8 The Government, with assistance from its development partners, will prepare the background information to inform the review, circulating the documentation to all participants with sufficient lead time so as to ensure a meaningful discussion. Such documentation is expected to include:

- Statements showing the budget and budget execution figures, including presentation of priority expenditures as defined in the PRS and PRS Progress Reports and associated policy matrix;
- Ahead of mid-term and annual reviews, statistical and other relevant information relating to the PRS policy matrix/PAF indicators;
- A PRS Progress Report, as relevant based on agreed schedules; and
- As soon as it becomes available after the end of each financial year, the Supreme Audit Institution's annual audit report.

4.9 Signatory development partners will seek to base their bilateral assessment of performance under their respective agreements on the statistical and fiscal information provided to them by the Government per the above. If special indicators are made available to one signatory development partner, the Government will make such information available to all signatory development partners.

The review process will use information gathered through ongoing processes to ensure that individual DPs do not set up a parallel review process. The review process should aim to minimize additional technical work. However, if the quality of regular information is not satisfactory, the development partners and the Government will establish a timeframe and the possible support to build the capacity needed to provide this information.

4.10 To facilitate the review and reporting process, signatories may find it useful to establish sector (and/or sub-sector) working groups. The relevant Government representative would take the lead, in conjunction with an advisory lead development partner (determined based on development partners' comparative advantages), in coordinating discussions on progress in the sector, identification of evolving priorities, and other issues, to feed into regularly scheduled reviews and reporting requirements. The division of labor among development partners should reflect the reality that certain partners may not be able to engage in specific areas (e.g., human rights, security forces).

**V. Audit**

5.1 As part of the annual budget execution report, the Supreme Audit Institution will provide an audit of use of budget funds during the previous year as soon as it becomes available. Signatory development partners may, in close liaison with the Government's audit authority,

commission additional external audits to allow an overall assessment of compliance with financial management regulations. Such audits will also include provisions aimed at helping to build the audit capacity of the Government.

## **VI. Evaluation**

6.1 The functioning of this Partnership Framework will be evaluated annually by signatories with a view to improving it as necessary. This evaluation may be carried out at an informal meeting of a majority of the signatories at the end of each year. *[or other timeframe if not annually]* The evaluation should focus on *inter alia* the quality of engagements between the Government and development partners; the review and reporting process; and the implementation of obligations spelled out under the Partnership Framework. An independent evaluation may be requested by a signatory at any time. *[Indicate how often the MOU will be updated based on the evaluation.]*

## **VII. Entry into Operation and Amendments**

7.1 The Partnership Framework enters into operation on the date of signature. Amendments to the Partnership Framework may be made through an exchange of letters in terms accepted by all signatories. Any disagreement concerning the procedures set out in the Partnership Framework will be settled by dialogue and consultation between signatories. In some instances, it is recognized that signatories may agree to disagree.

## **VIII. Termination**

8.1 Individual development partners or the Government may withdraw from the Partnership Framework by notifying the other signatories in writing. In such circumstances, the concerned party will endeavor to provide as much notice of termination as possible.

**Attachment I: [Year] Budget and Work Program Calendar—Government of [Country]  
and Development Partners**

*[Adapt format and complete based on country circumstances]*

	Budget Execution		PRSP Implementation		IMF/PRGF Review	Commitment Amounts & Disbursements
	Government	Partner Missions /Meetings	Government	Partner Missions /Meetings	Partner Missions/Meetings	Development Partners
January						
February						
March						
April						
May						
June						
July						
August						
September						
October						
November						
December						

## Partnership Framework for Budget Support

### DONOR SUPPORT GROUP

#### Terms of Reference

- The Donor Support Group (the “Group”) shall consist of all development partner signatories to the Partnership Framework and all other development partners who may wish to participate.
- The Group shall meet no less [*specify preferred frequency, e.g., biannually, quarterly, monthly*], but may meet more frequently as deemed necessary by consensus among members.
- The chairmanship of the Group will rotate monthly among members [*state mechanism for rotation, e.g., alphabetically, and possible differentiation between different members by status*]; the chair will be responsible for drafting the meeting agenda, based on members’ inputs.
- The primary functions of the Group will include:
  - Coordination of the exchange of information and documentation;
  - Organization of a joint work program of studies, analysis, capacity building, etc., to assist the Government in the implementation of its PRS;
  - To the extent possible, and within the context of budget support, coordinate respective donor processes and procedures with a view to reducing transaction costs for the Government and development partners; reducing overlap between development partners’ initiatives in the country; and enhancing the capacity of the country’s systems for effectively managing support from development partners.
- As experience with budget support develops and widens to additional sectors, development partners may find it useful to establish more formal sector (or sub-sector) working groups, which would include representatives of the Government, to review PRS objectives, targets under the agreed performance framework, and so on.