

DRAFT

GUIDANCE FOR COUNTRY TEAMS PREPARING PARTNERSHIP FRAMEWORK ARRANGEMENTS

Scope of this paper

1. This paper is intended to guide country teams drawing up Memoranda of Understanding (MOUs) as a framework for the overall relationship with a partner government. These MOUs, hereafter called Partnership Framework Arrangements (PFAs), are likely to be most appropriate in countries where we are providing direct budget support over the medium to long term where predictability is important. PFAs should be Memoranda of Understanding, not registerable treaty-type documents (see MOU explanatory note, Performance and Effectiveness Department intranet site [hyperlink]).
2. This paper proposes a set of core guiding principles which country teams are expected to follow when preparing PFAs. These core principles are intended to support moves towards best practice for development partnerships. The remainder of the paper is intended to provide a menu of options for country teams to consider in discussion with partner countries and other donors. Other relevant guidance includes: guidance on the choice of aid instruments; guidance on managing fiduciary risks; and guidance on long term commitments [hyperlink] (all available from the Performance and Effectiveness Department intranet site).

Purpose of PFAs

3. PFAs are intended to set a clear and transparent framework for partnership. There are a number of objectives which PFAs can contribute to (although the formal agreement will not achieve any of these on its own):
 - Setting a framework for the overall relationship and for substantive dialogue: the PFA can summarise the type of relationship that the parties have, or wish to develop. It should also help both parties consider the mechanisms, people and skills needed to conduct this dialogue.
 - Being open and explicit about conditionality and expectations: it is important that DFID is clear about our expectations, and the range of issues we regard as important for poverty reduction. This will include explaining to our partners the expectations placed on DFID by the UK Parliament, auditors and public. We should also be encouraging our partners to state clearly their expectations of us.
 - Predictability: perhaps the most important motivation for partner governments for agreeing an PFA is to achieve or increase the predictability of donor support (financial and technical)
 - Increase donor accountability: to date, donors have been able to hold partner governments to account for delivering on their commitments, with the threat of withdrawing assistance if they do not deliver. However, recipients have had few opportunities to review donor behaviour or progress against commitments made, let alone taking action if donors fail to deliver. PFAs provide a

DRAFT

mechanism for setting out donor commitments and reviewing progress against them on an annual basis with partners. Setting out our commitments in this way could also enhance our accountability to UK stakeholders for improving aid effectiveness.

- Donor co-ordination and harmonisation: developing a joint PFA with the Government could be a powerful stimulus to greater donor co-ordination and harmonisation.

Core principles

4. We can identify some core principles for country teams preparing PFAs:
 - i. Root the PFA firmly in the Poverty Reduction Strategy (PRS) process: PFAs should stress the centrality of poverty reduction strategies to the development process.
 - ii. In long term, seek to move towards a single PFA for all bilateral donors in a country: Country teams should consider whether there is scope for a single PFA between all, or some, donors and the partner government. This would include agreement to joint commitments and common mechanisms for monitoring progress. This is most likely to be possible in countries where there are particularly strong mechanisms for donor co-ordination and a track record of joint funding (for example Mozambique).

If a multi-donor PFA is not yet possible, country teams should still engage with and inform donor partners during preparation of an PFA. In such cases care should be taken to avoid putting in place barriers or disincentives to future involvement by other donors. For example, by making specialised 'UK-centric' arrangements.

- iii. Be clear and transparent about conditions and expectations: At present, some partner governments are unclear about our expectations in areas such as political governance and human rights. We need to ensure that these cover the broad areas where we want to have a dialogue with the partner government. The objective should be to ensure that that all parties understand the expectations which underpin the development relationship, and the possible consequences of failing to live up to these expectations. Agreement to a PFA will need to be accompanied by dialogue with partners about expectations, including explaining the political context in the UK and DFID's accountability to Parliament.

Where possible, PFAs commitments should draw from, or refer to, PRS outcomes. Where the PRS does not cover political conditionality, the PFA will need to refer to international agreements (e.g. NEPAD) or national declarations. Only if unavoidable, should we establish new commitments in the PFA.

- iv. Maximise mutuality of the arrangement: Traditionally, donor-recipient agreements have had a short section on donor commitments (often largely

DRAFT

limited to level of financial support), and several pages of developing country government commitments. PFAs should avoid reproducing long lists of targets or benchmarks from the PRS which can be cross-referred to. PFAs should set challenging expectations on donors as well as developing country governments regarding the behaviours and actions needed to contribute to poverty reduction. Most importantly, the PFA should be discussed at an early stage with Government and not presented as a full text and fait accompli. Establishing shared commitments for development outcomes (see paragraph 6) will help foster mutual accountability for progress, or lack thereof.

- v. Minimise transaction costs: The PFA should contribute to minimising transaction costs for partner governments. For example, monitoring and review for PFAs should use existing systems.
- vi. Maximise developing country government's accountability to its own citizens: it is essential that PFAs do not result in partner governments becoming more accountable to donors than to their own citizens.

Timeframe

5. PFAs are intended to provide a framework for a long term partnership and are likely to have a time horizon of 6-10 years.

PFA commitments

Shared commitments

6. In order to help give PFAs a more 'mutual', less one-sided feel to them, some commitments could be framed as shared by both donor and recipient. Where donors are directly supporting efforts to achieve key PRS outcomes, these could also be framed as shared commitments. Not all commitments will be shared. There will still be commitments which are genuinely specific to just one of the parties and these should be expressed as such. Shared commitments could include:

- Pursuit of shared development outcomes: Refer to or summarise PRS outcomes which donor parties to the PFA are helping to reach.
- Commitment to engage with other stakeholders: e.g. civil society and the private sector
- Transparency: PFAs can set obligations on both sides to share, or make public, information relating to the development relationship or joint activities

Donor commitments

7. Donor commitments could cover:

- Funding: Indication of expected levels of funding, – specific commitments for first few years (see guidance on long term commitments [hyperlink]), with indicative commitment for future, and (if appropriate, indicative timing of

DRAFT

disbursements). Commitment to deliver funding to fit with country budget and reporting cycles. Form in which assistance will be provided (i.e. TC, financing aid, project aid, direct budget support). Funding should reflect priorities identified by government within its PRS.

- Transparency: Making information available, e.g. in-country financial reporting; publishing agreements with government (such as PFAs, Country Assistance Plans).
- Assistance to government programmes should be through government systems and respecting national budget and reporting cycles: e.g. Ethiopia draft PFA quotes the SPA principle on working through government unless compelling reasons to the contrary. This will include government systems for planning, implementation and delivery, monitoring and review, financial management and accounting. This should not preclude working with civil society and the private sector where appropriate.
- Development effectiveness: Could include working to introduce common donor procedures and to minimise transaction costs. Donor commitments could refer to applying best practice on development effectiveness, reducing transaction costs, harmonisation, untying (if multi-donor) etc. A suitable source of agreed best practice could be the Good Practice Reference Papers being prepared by the DAC Task Force on Aid Practices.
- Coherence issues: there are a number of issues on which DFID does not lead which are important for poverty reduction. In preparing PFAs, DFID will need to consider whether these can be included. For example, a draft PFA for Sierra Leone includes commitments on conflict/security sector, arguing for market access for exports from poorest countries and helping GoSL in international fora. In such cases the UK commitment would go wider than DFID and would need to be agreed with other Government Departments.

Developing country commitments

8. The PFA will provide a framework for the overall relationship. PFAs will need to set out the range of areas where we will want to have a dialogue with the partner government. We should be explicit about conditionality, although we should also be open with partner governments that, however hard we try, it will not be possible to specify every possible eventuality which might lead to funding being withdrawn. Referring to the PRS and other key documents will help to avoid PFAs having huge lists of commitments which partner governments must live up to. Where key issues are not covered in the PRS (e.g. protecting human rights, public expenditure, corruption, undermining democracy or rule of law), we will need to refer to other existing commitments made by the government (e.g. international agreements or national declarations). Only as a last resort, should we introduce new targets in the PFA.

9. Other developing country commitments are likely to include:

DRAFT

- Government leadership of the development process: this could include leading common review processes with all donors, commitments to participatory monitoring of progress with implementing PRS, articulation of government's expectations of all donors.
- Link to regional processes: for African countries, include a commitment to participate in NEPAD peer review mechanisms.
- Development outcomes sought (where not covered by shared commitments): Refer to or summarise key targets from the PRS and other key documents

Framework for review and monitoring

10. PFAs should set out a framework for review and monitoring progress against the commitments undertaken. This should facilitate meaningful dialogue between the parties, but also needs to minimise the transaction costs. In many countries with a PRS where we are providing direct budget support, existing mechanisms to review progress against the commitments of partner Government are likely to be sufficient. Review mechanisms might be expected to:

- involve annual review of PFA commitments (although this section may refer to other mechanisms for reviewing progress against PRS which occur more frequently);
- use partner government systems for monitoring and assessing progress towards PRS where they are of acceptable standards, and work to strengthen those which are not;
- involve stakeholders other than governments;
- work with other donors.

11. In some countries, fora to review donor practices may exist (e.g. the Independent Monitoring Group in Tanzania) which may be able to play a useful role in monitoring donor commitments. Where such mechanisms do not exist, a process for this will need to be agreed. As with partner government commitments, stakeholders outside of government should have an opportunity to participate. Country teams should be aware of the risk that unequal power relationships between donors and developing country governments may make it difficult for partner governments to hold them fully to account.

12. Country teams should consider whether independent monitoring or review would add value. In countries where the partner government is reluctant to criticise donors, an independent view may be useful. The objective of independent monitoring should be to facilitate dialogue and mutual accountability, not to arbitrate or provide an alternative to dialogue. If independent monitoring is proposed, linking it to an existing, perhaps regional body (such as the SPA) may help strengthen the ability of partner governments to hold donors to account.

DRAFT

Framework for dispute resolution

13. There is evidence that unpredictability of donor funds is becoming a major concern for partner countries. Some developing countries may be considering limiting levels of budget support or even forgoing some donor funding altogether. Furthermore, managing the risk of fluctuating donor funds imposes a cost on partner governments by introducing uncertainty in budgeting, planning and delivery systems, even if donor funds are, in the event, delivered as planned.

14. There are four ways in which PFAs could be used to promote predictability:

- i) Supporting ongoing, open, frank dialogue: The foundation of the partnership should be dialogue which will support greater mutual understanding of expectations (including the political context in the donor country) and help spot any potential problems.
- ii) Being explicit about conditionality: including conditions related to political governance. Where the PRS does not sufficiently cover political governance, we will need to refer to other agreed commitments by partner governments. These might be regional agreements to which the government has signed up, such as NEPAD agreements, or national declarations.
- iii) Introducing a period of dialogue, and fact-finding before responding to rapidly arising issues: Following an issue arising which impacts on the performance of the government, a period of intense dialogue could be triggered by any party to the PFA. This would provide time for fact-finding and discussion, ideally leading to a satisfactory resolution. If, at the end of this period, the issue had not been resolved, we would take a decision on a response (e.g. reducing funding). The period for dialogue would need to be decided, although a starting point might be 90 days as in the Cotonou Agreement.
- iv) Responding to evidence of weakening performance by reducing future allocations, suspending funds in-year only in extreme cases: this would provide assurance to partner governments that, in the case of instances of poor performance in an otherwise good overall approach, we would not respond by cutting in-year funding.

15. The Secretary of State's accountability to Parliament and the need to protect public funds demand that, where the change in circumstances was a serious threat to overall prospects for poverty reduction (e.g. war, undermining rule of law or democracy, military coup, major and systematic violation of human rights), she would have the ability to suspend funding immediately. A parallel can be drawn with Article 96 of the Cotonou Agreement which provides for unspecified measures, including suspension of the agreement, which can be taken in the case of particularly serious and flagrant violations of basic democratic principles, rule of law or human rights.

Relationship with subsidiary MOUs (budget support, other programmes)

16. PFAs provide a framework for the overall relationship with that country. Budget support MOUs will include SMART targets and triggers for release of funds.

DRAFT

Budget Support MOUs, and perhaps others should refer back to the PFA in such a way which ensures that action, including suspension of funding, is possible for breach of the general principles set out in the PFA.

Feedback and further guidance

17. Please send any feedback related to this guidance to Phil Marker, Performance and Effectiveness Department, ext 0309. For questions and further guidance on drawing up an PFA, please contact [...].

PED
September 2002