

**POVERTY REDUCTION BUDGET SUPPORT**

**MEMORANDUM OF UNDERSTANDING**

prepared for budget support from cooperating partner agencies  
to the Government of the Republic of Zambia

Lusaka  
1 April 2005

This Memorandum of Understanding is made this 1st day of April 2005  
BETWEEN the Government of the Republic of Zambia (hereinafter referred to  
as "GRZ" or "the Government") of the one part and Cooperating Partners  
providing Poverty Reduction Budget Support (hereinafter referred to as the  
"PRBS Group") of the other part and who are listed in Annex 1 and are  
together referred to as "Signatories"

**Whereas**

1. GRZ represented by the Ministry responsible for Finance has requested the PRBS Group to contribute towards the funding of its Poverty Reduction Strategy as reflected in relevant strategy documents over time, including the first PRSP and Transitional National Development Plan and their successor documents (hereinafter generically referred to as the "National Development Plan");
2. the Signatories are committed to creating an effective development partnership based on mutual commitment, accountability, trust and frank and open dialogue, in the interests of the people of Zambia, aiming to reduce poverty, and sustain development gains;
3. the Signatories have committed themselves to the principles of harmonisation as reflected in this MOU, as well as in the "MoU on Co-ordination and Harmonisation of GRZ/Donor practices for Aid Effectiveness in Zambia" (April 2004) in accordance with which the PRBS Group will strive for the highest degree of alignment with the budgetary and accountability system and legislation of the Government so as:
  - to enhance ownership and effective implementation of the National Development Plan
  - to increase predictability of aid flows
  - to allow allocative efficiency in public spending

- to strengthen domestic accountability
  - to increase GRZ's institutional capacities in planning, implementing, monitoring and evaluating its programmes,
  - to reduce the administrative burden on the Government and to minimise transaction costs;
4. the Signatories have reached an understanding on common procedures for consultation and decision-making, disbursement mechanisms, monitoring and reporting, review and evaluation, audit, financial management, the exchange of information and cooperation between the Signatories as reflected in this MOU;
5. the financial contributions by the PRBS Group will be decided on within the bilateral arrangements and agreements made between each of the individual members of the PRBS Group and the Government, and the PRBS Group will strive to use a similar format for bilateral arrangements/agreements in order to ensure a harmonised approach to the financing provided and the procedures and conditions applicable for the same;
6. the National Development Plan document describes the national strategy and action plan for poverty reduction, including the national development co-operation goals and shall form the basis of this Memorandum of Understanding;

Now, therefore, the Signatories have decided as follows:

**Part 1            Goals of the Program and scope of the MOU**

7. The National Development Plan document will be brought up to date as necessary, taking into account the lessons learned from the implementation of

earlier poverty reduction strategies, the progress made towards Zambia's poverty reduction targets, as well as national and international developments.

8. This MOU sets out the jointly agreed terms and procedures for direct budget support from the PRBS Group to the National Development Plan and serves as a co-ordinating framework for consultation with the Government, for joint reviews of performance, for common procedures on disbursement, for reporting and for audits.

9. Each of the members of the PRBS Group will establish a bilateral arrangement or agreement that is compatible with the spirit and provisions of this MOU and will refrain, as far as possible, from setting conditions in its bilateral arrangement or agreement which contradict or diverge from the spirit and provisions of this MOU. If there is any inconsistency or contradiction between the terms and conditions of this MOU and a bilateral arrangement or agreement, the provisions of the bilateral arrangement or agreement will prevail. Insofar as specific provisions of a bilateral arrangement or agreement deviate from the MOU, the concerned member of the PRBS Group will inform the other members of the PRBS Group thereof, by supplying a copy of it to each other member of the PRBS Group, specifying the provision(s) concerned. The deviations will be included as exceptions in Annex 3 to this MOU.

10. The PRBS Group will base their actual budget support on the progress attained in the implementation of the National Development Plan. Progress will be measured through common agreed performance indicators as described in a Performance Assessment Framework (PAF). The PAF is a multi-annual matrix of priority milestones, targets and indicators based on the National Development Plan, Public Expenditure Management and Financial Accountability reforms under the PEMFA programme and related initiatives over time, other components of public service reform, macro-economic stabilisation policy and debt sustainability. The PAF will be updated on an

annual basis at the October review meeting described in paragraph 29, and will be formally recorded in the minutes prepared and approved in accordance with paragraph 31. PAF milestones, indicators and targets will be kept consistent with existing GRZ policies and ongoing programmes agreed upon with cooperating partners, in particular the International Monetary Fund, the World Bank and the European Commission.

11. The Signatories will aim to ensure that the PAF remains as tightly focussed over time as possible, with only as many milestones, indicators and targets as are necessary to ensure that decisions under this MOU are based upon actual progress by the Government in implementing its National Development Plan. The Signatories will also work to ensure that there is only one PAF for all the members of the PRBS Group in Zambia, whilst recognising that transitional arrangements may be required in the short term to achieve such harmonisation.

## **Part 2        Underlying Principles**

12. The National Development Plan recognises good economic and political governance as an essential element for economic growth and sustainable human development. The overall goal of the National Development Plan is to contribute to poverty reduction in Zambia through sustained broad-based economic growth, improved delivery of social services and cross-cutting policies for HIV/AIDS, gender and the environment. The Signatories consider GRZ's commitments to fight poverty, including through a pattern of public expenditure consistent with poverty reduction priorities as identified in the National Development Plan, to be the basic principle for the provision of direct budget support. In addition, the following are considered by the Signatories to be underlying principles for the provision of PRBS:

- GRZ's commitment to peace, democratic principles, the rule of law, good governance and integrity in public life, including the fight against corruption;
- GRZ's commitment to public financial management reforms;

- GRZ's commitment to pursuing sound macro-economic policies, as evidenced by a positive IMF assessment of overall macro-economic performance.

13. The violation of an underlying principle is understood as being above and beyond concerns raised about under-performance against indicators and targets expressed in the PAF. Any such perceived violation will be the subject of dialogue under Part 5 of this MOU and possibly Part 11 thereafter. For the avoidance of doubt, assessment of overall macro-economic performance for the purposes of paragraph 12 above, does not necessarily imply any direct one-to-one relationship between GRZ remaining on-track with an IMF Poverty Reduction Growth Facility (PRGF) and continuation of support under this Memorandum of Understanding.

### **Part 3            Responsibilities and representation**

14. The Government will be fully accountable and responsible for the implementation of the National Development Plan and for the management of the financial contributions of the PRBS Group. The Government will keep financial records of the support provided in accordance with generally accepted accounting standards, recognising evolving Government capacity over time to meet such standards. The Government affirms that the support of the PRBS Group will only be used to cover expenditures included in the National Budget as approved by the National Assembly of the Republic of Zambia and only on expenditure on the National Development Plan. The members of the PRBS Group will not bear any responsibility and/or liability, either jointly or severally, to any third party with regard to the implementation of the National Development Plan.

15. The Government will ensure that the National Budget is comprehensive and reflects the priorities of the National Development Plan. The Government will be responsible for timely availability of all documentation necessary for

joint reviews of performance, disbursements, and audit in accordance with this MOU.

16. A prerequisite for the PRBS Group's support of the National Development Plan is that the Government maintains progress with the PEMFA programme under the Memorandum of Understanding signed with co-operating partners on [9] December 2004 for implementation of the PEMFA programme.

17. The PRBS Group are committed to providing budget support as a growing share of their overall support to Zambia and in a way that:

- is aligned with GRZ cycles for planning, implementation, monitoring, reporting and funding;
- improves harmonisation by eliminating bilateral administrative and reporting requirements as well as bilateral reviews;
- ensures transparency in Zambia of conditions and funding;
- enhances the capacity of GRZ to meet its commitments by providing appropriate technical assistance and capacity building.

18. The PRBS Group will strive to ensure the predictability of all support provided under this MOU by informing the Government as soon as possible of the support they anticipate providing for each year, beginning with the period 2005-2007, which time span corresponds with the timeframe of the relevant medium-term public expenditure framework (MTEF). In addition PRBS Group members:

- will provide the Government with information on subsequent disbursements in time for it to be used in policy and budget planning;
- will link response mechanisms to agreed, realistic targets and indicators as specified in the PAF;
- will disburse according to the agreed annual disbursement schedule as specified in Part 6, paragraph 38; and

- will not interrupt in-year disbursement, unless underlying principles as specified in Part 2, paragraph 12 of this MOU are violated and only after completing the dialogue mechanisms as specified in Part 5 and Part 11 of this MOU in respect of that violation.

19. The Signatories will co-operate and communicate fully and in a timely manner with each other on all matters relevant to the implementation of the National Development Plan and this MOU. Signatories will share all information on aid flows, budget preparation and budget execution, technical reports, and any other documentation/initiative related to the implementation of the National Development Plan which are relevant to the support.

20. The Government will immediately inform all PRBS Group members of any circumstance which may interfere or threaten to interfere with the successful implementation of the National Development Plan with a view to resolving the issue and to consulting with the PRBS Group on remedial action to be taken. The dialogue mechanism in Part 5 of this MOU may be used for this purpose.

21. Unless otherwise stated in this MOU, in matters pertaining to the implementation of this MOU the Government will be represented by the Secretary to the Treasury or officials as nominated by the Secretary to the Treasury. The representatives of each member of the PRBS Group will be stated in the individual bilateral arrangement or agreement entered into with the Government, but are likely to be members of the (diplomatic) mission of the member in question.

#### **Part 4 Contributions and annual commitments**

22. Each member of the PRBS Group will inform the Government in time for its inclusion in the subsequent MTEF of its intention to support the National Development Plan through direct budget support and of the indicative volume of its financial contribution as well as the maximum annual commitments over the MTEF period. Each member of the PRBS Group will confirm its total

financial contribution for the MTEF period within its respective bilateral arrangement or agreement with the Government. The Signatories accept that confirmation of financial contributions of the PRBS Group may be subject to the approval of their respective constituencies, Parliaments, Boards, and/or national appropriation rules.

23. The maximum annual commitments specified in the bilateral arrangement or agreement will consist of either a fixed and variable element, and/or a floating element. The actual volume of annual commitments will be determined by the sum of the fixed and variable elements for the year. The fixed element will be committed in the year preceding actual disbursement upon reconfirmation of general eligibility for direct budget support, as defined by the underlying principles set out in Part 2 of this MOU. The variable element will be committed in the year preceding actual disbursement on the basis of the joint assessment of progress on common agreed milestones, indicators and targets as described in the PAF, in accordance with Part 5 of this MOU. A floating element will be committed for immediate disbursement in any given year following review against specific PAF milestones, indicators or targets agreed in the previous year, in accordance with Part 5 of this MOU.

#### **Part 5        Monitoring and dialogue**

24. Regular consultation among the Signatories is considered critical to continued engagement by the PRBS Group and effective implementation of the National Development Plan and subsequent reform strategies.

25. The Signatories will meet twice a year to review performance in relation to the agreed PAF for the previous year, and to agree the contents of the PAF for the next year. The joint Review meetings will take place each year in June and October, unless Signatories jointly agree on a more appropriate month for either Review meeting taking into account the requirements of the budget cycle and other priorities. As soon as it is practicable to do so, taking into account the requirements of the national budget cycle, and with a view to

reducing transaction costs for all concerned, the Signatories aim to merge the two Review meetings into a single Annual Review meeting. All Review meetings will be jointly called, and chaired by the Government.

26. Key subjects to be discussed during the Review meetings include

- review of performance, budget execution and expenditure priorities on the basis of the indicators described in the Performance Assessment Framework;
- review of action plans for policy priorities and national budget for the next budget year, including the link between poverty reduction priorities and inter-sectoral allocations;
- implementation of the MOU, including review of PAF milestones, indicators and targets;
- review of underlying principles; and
- follow up on audits.

27. The June review meeting will focus on Signatories coming to a joint view on performance, which serves as the basis for commitments for the next budget year. The review will be based on the National Development Plan's Annual Review, the annual PEMFA progress reports, Quarterly Budget Execution Reports and related information, and the national audits. If dialogue in the months before the review meeting between Signatories has not ensured that the National Development Plan's Annual Review, PEMFA reports, sector reviews and any other prior analytical work agreed upon in relation to the PAF cover all priority issues as specified in the PAF, the Government may also be asked to provide supplementary material on elements of the PAF not covered in the existing documentation. Any request for supplementary material will be addressed to the Secretary to the Treasury for forwarding to the Joint Steering Committee constituted under paragraph 32 for action.

28. Within 4 weeks after the conclusion of the June review meeting, each PRBS Group member providing fixed and variable elements will submit indicative commitments for both fixed and variable elements for the next

budget year, with the size of the variable element as an outcome of the joint performance assessment. The assessment will be based on a joint review of whether indicators have been met, partially met, or not met at all. Signatories will make the assessment across the whole of range of issues captured in the PAF. This assessment, and the subsequent confirmation of the volume of its commitments by each member of the PRBS Group, will be conducted in a transparent and harmonised way by all Signatories, reflecting trust and mutual respect in pursuit of a common objective through operation of a joint PAF. Each PRBS Group member providing a floating element will confirm during the review meeting whether the Government has met the relevant specific milestones, indicators and/or targets sufficient to trigger an immediate disbursement earlier agreed.

**29.** The October review meeting will focus on dialogue on forward planning and budgeting and agreement on the PAF for the next budget year. This dialogue will be based on the annual Financial Reports of the previous budget year, the Annual PEMFA Evaluation and the ceilings in the annual budget for the next budget year, as specified in the MTEF Green Paper. During this Review meeting, each member of the PRBS Group will confirm the volume of its commitment, both fixed and variable element, for the next budget year, based on the outcomes of the joint performance assessment and the reconfirmation of eligibility to direct budget support. During this review meeting, the Signatories will also agree on the PAF for the next budget year, and any PRBS Group member intending to provide a floating element will confirm against the new PAF the specific milestones, indicators and/or targets which will trigger, when met, an immediate disbursement at the relevant review meeting in the following year.

30. The Government is responsible for the submission of all reports and supplementary material required for any review meeting not later than two weeks before the Review meeting in question. Signatories may jointly commission prior analytical work in relation to the PAF, such as an annual

Public Expenditure Review or Public Expenditure Tracking Survey, to supplement and underpin regular reporting requirements. The PRBS Group will promote building capacity within GRZ to carry out such analytical work, initially by contracting such studies in liaison with relevant Zambian institutions. The mechanisms for commissioning, sharing and introducing any such additional material into a Review meeting, will be agreed through the Joint Steering Committee constituted under paragraph 32 of this MOU, following a procedure which the JSC has approved for the purpose.

31. The results of all review meetings will be recorded in Agreed Minutes. The Agreed Minutes for any given review meeting will be drafted by the Joint Executive Committee as constituted under paragraph 33 and a draft will be sent to all Signatories, for their approval/comments, within two weeks after the meeting. All Signatories will inform all other Signatories of their approval and/or comments within seven days of receipt of the draft. Any disagreement over the content of the minutes will be resolved by the Joint Executive Committee amongst themselves, in consultation with the Signatory or Signatories whose comments have generated the disagreement.

32. The Signatories undertake to engage in dialogue on issues affecting the implementation of this MOU in a spirit of openness and cooperation. To that end, a Joint Steering Committee (JSC) will meet in between review meetings on a quarterly basis or more often as required for the dialogue mechanism set out in paragraphs 34 and 35 below. The composition and the role of the JSC are outlined in Annex 4 to this MOU. The PRBS Group will be represented in the JSC by 3 lead donors rotating every two years, unless it is otherwise agreed by the PRBS Group amongst themselves that tenure of a member of the JSC should be extended or curtailed. When identifying agencies to serve as lead donors, the technical competence and capacity of individual PRBS Group members in Zambia should weigh more than the respective member's financial commitment to the PRBS Programme.

33. For the preparation of joint reviews and the management of follow-up activities as well as all other support and co-ordination activities included in this Part, the JSC will appoint a Joint Executive Committee (JEC) from amongst its own members. The JEC members will be appointed on a rotating basis in accordance with the principles as outlined in Annex 4 for one year, unless it is otherwise agreed by the PRBS Group amongst themselves that tenure of a member of the JEC should be extended or curtailed.

34. Any Signatory may at any time identify an issue which that Signatory feels is relevant to the implementation of this MOU (including concerns regarding Underlying Principles), and may notify the JSC of its desire to enter into dialogue on that issue, by writing a letter to the Secretary to the Treasury for forwarding to the JSC. On receipt of notification that a Signatory wishes to enter into dialogue, the Chairs of the JSC will pass the letter to the Joint Executive Committee to convene a meeting of the JEC to agree a process for dialogue on the issue in question. In convening such a meeting, the JEC will also invite PRBS Group members to identify other issues of a similar nature which might usefully be discussed in the same process of dialogue, so as to reduce transaction costs for all concerned between the Review meetings described above.

35. In agreeing a process for dialogue, the JEC should consider all possible mechanisms for generating the most effective possible dialogue on the issues in question including but not limited to: resolving the issue in JEC or JSC meetings; round-table meetings involving senior officials; delegation to officials at different levels to maintain regular contact; delegation to subgroups to work on specific technical issues.

36. Between review meetings, the Signatories will provide each other with the information required to understand trends in implementation of this MOU, and to demonstrate fulfilment of obligations and undertakings under this MOU, so as to avoid as far as possible the emergence of issues which might precipitate

dialogue under this Part and increase transaction costs. The information will include but need not be limited to, the documents identified in paragraph 45.

37. In sharing information under paragraph 36, Signatories will concentrate on major issues fundamentally affecting the success of the National Development Plan, the joint PRBS and the overall development co-operation between the PRBS Group and Zambia.

## **Part 6            Disbursements**

38. A common disbursement schedule will be decided upon between the Signatories before the start of each budget year. It will take into account the National Budget and cash flow needs for the implementation of the National Development Plan.

39. The PRBS Group will disburse the instalments upon written requests for payment from the Government. Ordinarily annual commitments will be disbursed in six-monthly instalments, but the PRBS Group will co-ordinate between themselves, and in dialogue with GRZ, the timing and amount of their own disbursements in such a way that the cash flow needs of GRZ and the common disbursement schedule are respected.

40. All disbursements will be deposited, within 48 hours from the date of receipt of the funds, in a single, interest-bearing foreign exchange account indicated by the Government in the Bank of Zambia. Upon the request from the Government, the Bank of Zambia will promptly credit the countervalue in Zambia Kwacha (ZMK) to the Treasury Account of the Ministry of Finance. The ZMK equivalent will be calculated on the basis of the ruling exchange rate on the date of transfer of the funds by the PRBS Donor(s).

41. The Bank of Zambia will immediately acknowledge receipt of the foreign exchange funds, in writing, to the members of the PRBS Group making the contributions. The Government will immediately acknowledge receipt of the

ZMK countervalue on the Treasury Account, in writing, to the members of the PRBS Group in question.

42. An annual audit will be conducted of the flow of funds in accordance with this MOU, to ensure that transfers are made promptly, and as intended. The Auditor-General, or a ZICA-recognised auditor subcontracted by the Auditor-General, will audit the Programme Accounts to produce an annual statement on the flows of PRBS-related funds into the Treasury Account via the Bank of Zambia.

43. Any interest accrued on any disbursement will be added to the National Budget.

#### **Part 7 Procurement**

44. The Government will perform all procurement in accordance with its procurement rules, guidelines and procedures. The Government will strengthen its procurement capacity and improve its procurement rules, guidelines and procedures in line with the procurement component under the PEMFA programme.

#### **Part 8 Reporting**

45. The Government will provide the PRBS Group with all information relevant to the implementation of the National Development Plan. Reporting will be done on the basis of the performance indicators described in the PAF. In particular the Government will provide the following reports:

- Quarterly Expenditure Reports, containing a summary of all expenditure as well as covering activities in key sectors and against PRP priorities, in a format agreed between the Signatories to reflect evolving Government capacity over time to produce such data;
- Annual financial reports for the previous budget year;

- Annual reviews on the implementation of the National Development Plan;
- Annual reports of the Auditor General;
- Annual PEMFA progress reports; and
- any other written evidence of progress on PAF indicators insofar not covered by the reports mentioned under above.

The reports will address all the items specified in the PAF.

46. National Development Plan Annual Reviews, PEMFA progress reports and any other written evidence of progress on PAF indicators should be submitted to the PRBS Group within 5 months after the end of the budget year. Annual financial reports should be submitted to the PRBS Group within 9 months after the end of the budget year. Annual reports of the Auditor General should be submitted to the PRBS Group within 12 months after the end of the budget year, after the submission by the Government of the annual report to the National Assembly.

## **Part 9          Evaluation**

47. Joint evaluations may be carried out by the Government and the PRBS Group at the request of any Signatory. The PRBS Group will refrain from bilateral evaluations without the consent and involvement of all Signatories. Terms of Reference for joint evaluations will be decided upon jointly by the Signatories ahead of the evaluation itself through the JSC following a procedure which it has approved for the purpose. Unless otherwise agreed amongst the Signatories, Terms of Reference should include processes for evaluation of the behaviour of all Signatories in complying with this MOU, including the individual members of the PRBS Group, and the operation and functioning of the PRBS Group as a whole. Evaluation 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 PRBS Group are accommodated to the maximum extent possible. The costs of evaluation missions will accrue to the PRBS Group.

48. Joint Evaluations will be co-ordinated by the JSC, and all review and evaluation reports will be distributed to Signatories for comments and/or approval as soon as possible. Signatories will promptly distribute all review and evaluation reports to one another where they emerge from bilateral evaluation processes not co-ordinated by the JSC.

**Part 10        Audit**

49. During any review under this MOU, the PRBS Group may consider material contained in annual audits of budget execution.

50. The Government will furnish all PRBS Group members with copies of the annual report of the Auditor General on the Public Accounts of Zambia. The annual report will be presented to the PRBS Group promptly after the submission of the annual report to the National Assembly, and in accordance with paragraph 46 of the MOU.

51. If the annual audit of the Auditor General is delayed and is unlikely to be forwarded to PRBS Group members within 15 months, the PRBS Group may commission, through the Office of the Auditor General, a financial or performance audit by an independent auditor of selected components or samples from the National Budget to allow an overall assessment of compliance with financial management regulations or of value for money. The PRBS Group will ensure that such audits help build capacity in the Office of the Auditor General.

**Part 11        Non-compliance, circumstances beyond GRZ control**

52. If after exchange of information and dialogue as described in Part 5 above a PRBS Group member raises a concern over fulfilment of an obligation or undertaking under this MOU, including its underlying principles, or feels that that dialogue has not been conducted in a spirit of openness and co-operation, it will call for a meeting with the other PRBS Group members to discuss a possible joint position on the measures, remedial or otherwise, required. If the meeting of the PRBS Group decides that the Government should be asked to take measures to remedy the situation, the PRBS Group will, as soon as possible after the meeting, bring the concern to the attention of the Government by writing to the Secretary to the Treasury. Wherever possible, the notification to the Secretary to the Treasury will describe the remedial measures which the PRBS Group recommends.

53. On bringing the concern to the Government's attention, the PRBS Group and the Government through the JSC will agree on a schedule of dialogue between all Signatories with a view to allaying the concern by consensus. As part of negotiating a consensus, the process of dialogue will consider:

- the longer-term trajectory of Government action and policy;
- the Government's commitment to poverty reduction;
- whether the behaviour giving rise to the concern is infringing the rights of poor people to participate in economic, social and political life in Zambia;
- whether Zambia is taking any steps to remedy the situation giving rise to the concern.

54. If the agreed process of dialogue under paragraph 53 has been pursued, but the concern has not been allayed by consensus, the PRBS Group will formally notify the Government, in a further letter addressed to the Secretary to the Treasury, that a difference of interpretation has arisen over fulfilment of an obligation or undertaking under this MOU. The notification will clearly underline the seriousness of the situation, and state the possible implications for future budget support and for the whole of the development programmes of the Signatories in Zambia.

55. If the PRBS Group feel that the Government is still making no serious attempt to improve the situation despite receiving the notification as specified in paragraph 52, the PRBS Group may consider suspending disbursement of agreed instalments, reducing levels of budget support for future years, or terminating the agreement fully. In these cases the PRBS Group will prepare a report containing:

- a description and assessment of the non-fulfilment of the Underlying Principles for direct budget support and PRBS;
- a review of consultations held with GRZ, and of reactions of the PRBS Group;
- an assessment to the extent possible, of potential impact of the proposed suspension or termination of budget support in terms of macro-economic stability, maintenance of poverty-reducing activities, and expected political impact;
- a reference to any previous risk analysis undertaken.

56. A report prepared under paragraph 55 will be submitted to the Government and the PRBS Group for written comments (if any) to be made within two weeks after submission of the report. Comments will be limited to demonstrating GRZ's desire to remedy the non-fulfilment of the obligation or undertaking by either:

- correcting inaccuracies in the report; and/or
- providing information not previously available which might have a material bearing on a decision by the PRBS Donors.

57. On receipt of any comments under paragraph 56, the PRBS Group will attempt to reconcile their earlier views on the matter as expressed in notifications with the new comments received. Only if the PRBS Group finds the situation to be so serious that they cannot reconcile their views with the comments received, will they consider suspending, reducing or terminating PRBS.

58. Any decision made after following the procedures in this Part will be notified to the Government in writing immediately. The PRBS Group members involved will agree the wording of the notification, including any circumstances under which the decision might be revoked in the light of remedial action by GRZ.

59. Any individual member of the PRBS Group may suspend or reduce new disbursements or terminate its support to the National Development Plan if the PRBS Group does not reach a common position under this Part on the response or remedial action required by Government.

60. The PRBS Group may suspend or reduce new disbursements in the event of extraordinary circumstances beyond the control of the Government which hinder effective implementation of the National Development Plan. If the PRBS Group considers suspending new disbursements they will consult with the Government reasonably far in advance. The suspension will be lifted as soon as these circumstances have ceased to exist or appropriate remedial actions have been implemented by the Government.

## **Part 12      Corruption**

61. All Signatories will require that their staff and consultants under projects or programmes financed by the PRBS Group refrain from offering the staff of any Signatory to this MOU and any third parties, and refrain from seeking, accepting or being promised from any source, including the staff of any Signatory and 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.

62. The Government will promptly inform the PRBS Group of any attempt by any person or entity to engage in behaviour covered by this Part. Failure by the Government to notify the PRBS Group of any such behaviour might constitute breach of the Underlying Principle in paragraph 12 of Part 2 relating to integrity in public life and the fight against corruption. On receipt of any

information under this paragraph, the PRBS Group will take appropriate action, including where necessary instituting criminal proceedings in their own jurisdictions against any entity alleged to have engaged in such behaviour.

**Part 13            Modification, Donor accession and withdrawal**

63. The Signatories will discuss the implementation, application and effectiveness of the procedures outlined in this MOU during the October review meetings and agree necessary amendments based on experience to that point.

64. Any modification of, or amendment to, the terms and provisions of this MOU will only be approved if agreed in writing by all Signatories.

65. The Signatories welcome participation in this MOU by other co-operating partners which wish to support the National Development Plan through direct budget support. Any new Signatory acceding to this MOU at any time will be added to the list of Signatories in Annex 1. It is open to any cooperating partner to express an intention to sign at the time that initial signing of this MOU takes place, even though the cooperating partner in question is not in a position actually to sign as part of the initial signing. If such an intention is expressed, the name of the cooperating partner in question will be included in Annex 1 as if that cooperating is an initial Signatory. Provision will then be made for that cooperating partner to sign separately as soon as possible after the initial signing. The cooperating partner in question will confirm in writing as soon as possible after actually signing with GRZ that it has become a full Signatory to this MOU.

66. Upon a co-operating partner's written request and written acceptance of the terms and conditions of this MOU, the Government may authorise in writing that co-operating partner to become a Signatory as a member of the PRBS Group. The Government will consult with the existing members of the

PRBS Group in advance and promptly furnish them with a copy of the letter of acceptance.

67. Each member of the PRBS Group may withdraw or terminate its budget support for the National Development Plan for reasons other than those referred to in Part 11 by giving the other Signatories written notice six months before the end of the budget year. It is expected that a member of the PRBS Group would follow the procedure in Part 5 above before giving notice of intention to withdraw. If a member of the PRBS group intends to withdraw or terminate its support, that member will call for a meeting to inform the other Signatories of its decision and to consult with them about the consequences for the National Development Plan.

#### **Part 14      Dispute settlement**

68. If any dispute arises between Signatories as to the interpretation, application or implementation of this MOU, Signatories will consult with each other in order to reach an amicable solution following the procedures set out in Part 11 where applicable. All Signatories will act at all times in a spirit of co-operation and openness so as to maintain good relations in resolving issues of interpretation arising under this MOU. No Signatory will seek to insist upon legalistic interpretations of the text of the MOU where a sensible solution can otherwise be found by agreement between the Signatories.

#### **Part 15      Entry into effect**

69. This MOU enters into effect for a given co-operating partner on the date of signature by the Government and that individual co-operating partner, at which point the co-operating partner becomes a member of the PRBS Group for all purposes.

**Annex 1: List of Signatories**

The Government of the Republic of Zambia represented by the Ministry of Finance and National Planning

Netherlands

Norway

Sweden

United Kingdom

European Commission

World Bank

The International Monetary Fund, though not a Signatory to this Memorandum of Understanding, has been actively engaged in the process leading to the initial signing by the Signatories, and will continue to be engaged after the initial signing

**MEMORANDUM OF UNDERSTANDING**  
FOR BUDGET SUPPORT TO THE GOVERNMENT OF THE REPUBLIC OF ZAMBIA  
1 April 2005

**Annex 2: PAF (2005)**

### **Annex 3: Exceptions (as applicable)**

#### European Commission (EC)

The EC will discuss with the Government of Zambia how to gradually adjust its present budget support under the PRBS01 in order to be compatible with the spirit and provisions of this MoU. This MoU will be referred to in the EC future bilateral agreements on the PRBS with the Government of Zambia

However, for the EC

- The MoU remains subject to the provisions of the Cotonou Agreement or any legal and financial framework for the EC- Zambia cooperation;
- Confirmed commitments and disbursements remain formally subject to final decision by the EC's Chief Authorizing Officer of the EDF;
- For variable tranches in the Financing Agreement of the PRBS 01, the existing provisions, indicators, targets and assessment methodology will continue to apply, unless the EC's Chief Authorizing Officer of the EDF decides otherwise upon a request from the Government of Zambia;
- Whilst recognising that transitional arrangements may be required in the short term before a single PAF can be adopted by all signatories of this MoU, the EC will work with the Government of Zambia and other Cooperating Partners to ensure that there is no policy inconsistency in defining new indicators and/or targets;
- The EC and the Government of Zambia remain strongly committed to implement the existing PRBS 01 Financing Agreement. According to article 1, Annex I "General Conditions" of the PRBS 01 Financing Agreement "The provision of Community financing shall be subject to fulfilment of the Beneficiary's obligations under this financing agreement";
- Notwithstanding the provisions regarding the Underlying Principles in Part 2, section 12 of this MoU, the EC will also follow the provisions in the PRBS 01 Financing Agreement, particularly articles 17, 18 and 19 of the Annex I "General Conditions" as well as the consultation procedures and measures foreseen in the Cotonou Agreement, particularly under Articles 8, 9, 96 and 97.

## **Annex 4: Role and composition of the Joint Steering Committee (JSC)**

### Outline Terms of Reference

The Joint Steering Committee is the steering mechanism for operating of the budget support instrument defined in this MOU. It is not intended to have legal personality, or to be able to contract relations in its own behalf. The intention is to ensure that key issues under the MOU are discussed, and that responsibilities for action amongst and between the Signatories to the MOU are discharged. The operation of the JSC will be made as simple as possible over time, so as to reduce transactions costs to the lowest level commensurate with allowing the JSC to discharge its functions.

The members of the JSC will be selected by the Signatories to the MOU as soon as possible after it is signed. Each selected member will nominate an alternate to participate in meetings in his/her absence. It is anticipated that the initial membership of the JSC may be the same as the membership of the Joint Steering Committee for the EC's PRBS01 Budget Support instrument, but that changes might be made to reflect priorities in the new PAF.

The membership of the JSC will be reviewed at all Review meetings under the MOU, to ensure that it appropriately reflects priorities under the PAF. Changes to the membership of the JSC will be made as necessary by agreement between the Signatories to the MOU before the end of the final Review meeting under the MOU in any given year.

The full JSC will meet at least quarterly:

- to discuss progress made with respect to the performance indicators as agreed in the PAF and between GRZ and the EC Delegation under PRBS01;
- to prepare for review meetings;

- to act as a forum for dialogue as specified in Part 5 of the MOU;
- to mediate in dispute settlement as specified in Part 11 of the MOU.

The JSC will appoint a co-chair from amongst each of the PRBS Group and the Government representatives present, and will agree its own Terms of Reference in or as soon as possible after its first meeting. Subject to any formal obligations imposed by the MOU, the JSC will determine its own working procedures but will make them as simple as possible over time, so as to reduce transactions costs to the lowest level commensurate with allowing the JSC to discharge its functions.. In the event of any question arising about the operation of the JSC which cannot be resolved by the members of the JSC amongst themselves, it will be referred to the Secretary to the Treasury for a decision.

The work of the JSC will be co-ordinated by a small Executive Committee (to be known as the Joint Executive Committee, or JEC). The JEC will consist of three representatives from GRZ and two from PRBS Group members.

The JEC will appoint a co-chair from amongst each of the PRBS Group and the Government representatives present, and will agree its own Terms of Reference in, or as soon as possible after, its first meeting. Subject to any formal obligations imposed by the MOU, the JEC will determine its own working procedures. In the event of any question arising about the operation of the JEC which cannot be resolved by the members of the JEC amongst themselves, it will be referred to JSC for a decision. If the JSC cannot agree on a decision, the question will be referred to the Secretary to the Treasury for a decision.

It is anticipated that the members of the PRBS Group will agree amongst themselves how to engage with the JSC and the JEC, how to select members to serve on the JSC and JEC, etc. It is expected that the PRBS

Group will share as far as possible any Terms of Reference which it generates for this purpose with the Government in a spirit of openness.

The JEC will ensure that relevant functions are discharged by the JSC as prescribed in the MOU. In discharging its own functions under the MOU, a meeting of the JEC will be quorate if at least three members attend, and as long as at least two of them are GRZ officials.

The members of the JEC will be selected by the members of the JSC from amongst themselves at the first meeting of the JSC after signing of the MOU. The members of the JEC will rotate annually, with selection of new members taking place each year at the first JSC meeting after the second review meeting provided for in Part 5 of the MOU.

The JSC will identify capacity required to assist the JEC and the JSC in discharging its functions under the MOU, and may recommend recruitment of technical assistance in this regard. Signatories will consider the funding implications of any such recommendation, and how best to address them, possibly by applying for TA resources available in reform processes linked to budget support, e.g. the PEMFA reforms.

[end]