

**FRAMEWORK MEMORANDUM
BETWEEN THE GOVERNMENT OF GHANA
AND
DEVELOPMENT PARTNERS**

MULTI-DONOR BUDGETARY SUPPORT PROGRAMME

19 May 2008

1. PREAMBLE

- 1.1 This Framework Memorandum (FM) describes the common framework for the implementation of grant and loan agreements through the Multi-Donor Budget Support Programme (MDBS) to support the Growth and Poverty Reduction Strategy (GPRS II)¹. This FM replaces the previous one between the Government of Ghana (GoG) and Development Partners (DPs) signed in Accra on 30 June 2003.
- 1.2 This FM will be supplemented by individual arrangements between each individual DP and the GoG. The contents in the individual funding arrangements take precedence over this FM. However, DPs will establish funding arrangements that are compatible with the spirit and provision of this FM.
- 1.3 This FM does not constitute an international treaty and is not intended to create legal commitments.
- 1.4 Amendments to this FM can be made by way of an exchange of letters in terms accepted by all DPs involved in the MDBS and the GoG.
- 1.5 When implementing this FM, the signatories endeavour to follow international recommendations and best practices as regards budget support.

2. INTRODUCTION

- 2.1 The GoG and DPs consider the FM for MDBS as the common basis for support to the implementation of GPRS II through the GoG's budget.
- 2.2 MDBS is open to other DPs who might wish to participate. The decision to participate does not imply that all participating DPs will be providing resources in any given year. However, it does imply that the spirit of this arrangement will be respected. MDBS currently includes the African Development Bank, Canada, Denmark, the European

¹ Or subsequent national Poverty Reduction Strategies

Commission, France, Germany, Japan, The Netherlands, Switzerland, United Kingdom, and the World Bank.

2.3 The objectives of MDBS are:

- to provide additional and more predictable budgetary resources to implement GPRS II and finance fiscal actions aimed at reducing poverty, reaching the Millennium Development Goals (MDGs) and promoting growth;
- to increase aid effectiveness by harmonising DPs' policies and procedures, by minimising transaction costs and by fostering ownership, alignment, management for results and mutual accountability;
- to enhance the performance and accountability of the GoG's public financial management (PFM) systems;
- to facilitate the strengthening of institutional capacity for designing and executing development policies;
- to promote an accelerated implementation of policy reforms and an enhanced performance in service delivery in order to reach development objectives;
- to foster domestic accountability and transparency.

3. UNDERLYING PRINCIPLES

3.1 The GoG and DPs, to the extent compatible with their statutory mandates, consider the following to be the underlying principles of MDBS for this FM:

- (i) Continuing sound macroeconomic policies and management;
- (ii) Commitment to achieving the GPRS II objectives and MDGs;
- (iii) Sound budgeting and PFM systems;
- (iv) Continuing peace and respect for human rights, the rule of law, democratic principles, and the independence of the judiciary; and
- (v) Good governance, accountability of the GoG to the citizenry, and integrity in public life, including the active fight against corruption.

Observance of the underlying principles is considered critical for the implementation of this FM.

4. PROGRESS ASSESSMENT FRAMEWORK

- 4.1 A set of growth and poverty reduction objectives, development indicators and policy reform measures, drawn from the GPRS II, is mutually accepted by GoG and DPs as the Progress Assessment Framework (PAF) and will be used by all signatories of this FM.
- 4.2 These development indicators and policy reform measures are referred to in this document as 'targets'. Targets will be result-oriented, time-bound, specific, measurable, realistic, within the power of the GoG to achieve, and limited in number. The GoG and DPs will decide on the means of verification of the targets, including the necessary documentation. The achievement of a subset of the targets, hereafter called 'triggers', will determine the extent to which the single component or the performance component is disbursed (see chapter 6).
- 4.3 DPs and GoG operate a multi-annual rolling PAF. The PAF is named by the year in which policy actions or indicators that are subject to assessment in the subsequent year are referring to. For example, if policy actions or indicators are to be taken or achieved in 'Year n', the PAF will be called 'PAF n'. PAF targets for the outer years will be indicative.
- 4.4 DPs and GoG will endeavour to ensure complementarity and coordination between MDBS and sector budget support arrangements. While recognizing that these constitute distinct processes, the arrangements should be seen as mutually supportive. The MDBS policy dialogue will add value to and will be informed by policy dialogues at the sector level, including major policy objectives and issues of crosscutting nature or with significant macroeconomic and budgetary implications.

5. DIALOGUE AND REVIEW PROCESS

- 5.1. The signatories have committed to coordinate reporting, dialogue and review missions. Regular dialogue among the signatories to the FM is essential for continued commitment to the MDBS.

- 5.2. The review process for MDBS will be common for all DPs. Participants will meet on a decided schedule, aligned with the review process of the GPRS II and the budget cycle. The review will be organised and chaired by the Ministry of Finance & Economic Planning (MoFEP), and include representatives of the GoG and the MDBS partners (including observers). Representatives from Parliament may be invited by the GoG to participate or observe the review.
- 5.3. The review process will be guided by the work of sector groups, including the conclusions from existing sector-level reviews. It will use information gathered through these and other ongoing processes to ensure that DPs do not set up duplicative reviews. It will endeavour to minimise additional work.
- 5.4. The review will include an assessment of overall progress in implementing the GPRS II, including macroeconomic performance, as well as progress against the PAF.
- 5.5. The overall progress in implementing the GPRS II will be assessed on the basis of the Annual Progress Report and other existing central documents. The assessment of satisfactory macroeconomic performance will be guided by an IMF instrument or arrangement. If the GoG is broadly on track in both areas, this 'holistic assessment' will be considered to be positive.
- 5.6. In addition, the documentation for the review will include, amongst others, regular reports on budget execution and poverty-reducing expenditures; existing PFM reviews, including a selected-flows audit; the annual budget statement, and the agreed documentary evidence for progress achieved in the PAF.
- 5.7. In order to ensure a fully informed review, the GoG will submit any outstanding documentation to DPs prior to the review.
- 5.8. The GoG and DPs endeavour to have joint and regular communication with external stakeholders at key stages in the MDBS dialogue, including dissemination of the final PAF and outcomes of the annual review.

6. DISBURSEMENT MECHANISM

- 6.1 The DPs' contribution consists of either a single component or two components (a base and a performance component) each year. Decisions on the number of components and the ratio between components will be left to the discretion of each DP.
- 6.2 The decision on the disbursement of the base component will be based on a positive holistic assessment (see paragraph 5.4). Neither the base nor the performance component will be disbursed if the holistic assessment is deemed unsatisfactory.
- 6.3 Progress against the triggers will determine the extent to which the single component or the performance component is disbursed. When reviewing progress against the triggers, DPs may take account of the extent to which the trigger was achieved, the GoG's effort to achieve the trigger, any developments outside the control of the GoG that may have affected progress, and other key developments in the sector.
- 6.4 Disbursement decisions will be left to the discretion of each individual DP, however DPs will try to reach a joint position.
- 6.5 In order to increase predictability and alignment with the budget cycle, DPs commit to give the GoG advance notice of the indicative MDBS funding for the following year, the amount of which will be announced directly following the completion of the respective PAF assessment and in time to inform the GoG's formulation of the following year's budget. At the same time, DPs commit to provide GoG with planned figures for their disbursements in the outer years. The disbursement of both components will ideally be made in the first four months of the following fiscal year.
- 6.6 Instalments will be deposited in a convertible foreign exchange account (the MDBS Account) in the name of the Government held at the Bank of Ghana. Within 48 hours, the Bank of Ghana will credit the Ghana Cedi equivalent (using the Central Bank (buying)

exchange rate on the date of 'purchase') to the Central Treasury Account for use as budget revenue.

- 6.7 The Bank of Ghana will provide documentary evidence of the amount and date of the foreign exchange payment to the respective DP and the Ministry of Finance and Economic Planning (MoFEP). MoFEP will acknowledge the amount and date of receipt of the Cedi equivalent in its Central Treasury Account, in writing, to the respective DP and to the co-chairs of the MDBS group.

7. AUDIT

- 7.1 The following audit arrangements will be established:

- The Ghana Audit Service (GAS) carries out an independent annual external audit of the GoG Accounts. The annual audit report by the GAS should be provided to MDBS DPs as soon as it becomes available.
- Further exercises will be carried out to complement GAS' annual audit. These include public expenditure tracking surveys, performance audits and GAS audit of selected flows (with regards to the latter, MDBS development partners will continue to make funding available for the purpose of the annual audit of selected flows which must be carried out to international standards). To the extent possible, the timing and content of these exercises will be coordinated.

- 7.2 The audit reports will be discussed as part of the MDBS dialogue.

8. PROCUREMENT

- 8.1 The GoG will perform all procurement in accordance with national procurement rules, guidelines and procedures.

9. RESPONSIBILITIES OF THE GOG

9.1 The GoG, in accordance with its rules, regulations, policies, and procedures, and subject to the availability of funds, will:

- Respect the underlying principles of this FM.
- Strengthen the monitoring and evaluation system that is used to assess progress on the implementation of the GPRS II.
- Implement the GPRS II and ensure that total expenditure and sector allocations effectively reflect the GoG's growth and poverty reduction commitment and that the budget is comprehensive.
- Further strengthen PFM systems and processes, including procurement and the Medium-Term Expenditure Framework (MTEF), and continue efforts to tackle corruption.

10. RESPONSIBILITIES OF THE DPS

10.1 To the extent possible and consistent with their internal laws, policies, procedures and individual bilateral agreements with the GoG, DPS will:

- Improve aid effectiveness, including the facilitation of greater GoG ownership, harmonisation, alignment, result-orientation and mutual accountability.
- Coordinate the timing of their disbursements with the GoG's budgetary requirements.
- Work closely with the GoG to coordinate with other dialogue mechanisms and aid modalities.

10.2 The DPS will endeavour to follow the principles and procedures enshrined in the FM and reflect them in their bilateral funding arrangements with GoG to the maximum extent. These arrangements will mainly provide further details on the obligations of each participant and the procedures for disbursing funds together with any standard conditions for development cooperation that the individual DP may have. The DPS will keep such general conditions to a minimum.

11. ANTI-CORRUPTION

- 11.1. The GoG and DPs concur that corruption undermines good governance and wastes scarce resources. The GoG and DPs intend to cooperate closely in order to ensure transparency, accountability and probity in the use of public resources.

12. CONSULTATION AND TERMINATION

- 12.1 Any differences or controversies that arise in relation to the MDBS should be settled by means of dialogue and consultation between DPs and the GoG. The GoG and each DP will promptly consult with the other participants whenever a DP proposes to suspend or terminate, in whole or in part, its support to the GPRS II through MDBS.

- 12.2 This FM remains valid unless cancelled or replaced by a new FM.

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