

**Joint Financing Arrangement**  
**on the**  
**Nepal Peace Trust Fund**  
**between**  
**The Government of Nepal**  
**and**  
**The Donor Group**

(Government of the United Kingdom of Great Britain and Northern Ireland represented by  
Department For International Development)

(Ministry of Foreign Affairs of the Kingdom of Norway)

(Switzerland represented by Swiss Agency for Development and Cooperation)

(Government of Denmark)

(Government of Finland)

1. Whereas the Government of Nepal/ Ministry of Finance (hereinafter referred to as 'the GON) has requested the support of the Donor Group (hereafter referred to as 'the Donors') to contribute towards the implementation of the Peace Agreements signed with the Communist Party of Nepal (Maoist) through the Nepal Peace Trust Fund (hereinafter referred to as 'the Peace Fund'). The GON and the Donors together are hereafter referred to as 'the Signatories'. The list of the signatory Donors is attached to this JFA as Annex A.
2. Whereas the GON has committed itself to provide funding to the Peace Fund, and the Donors in turn have committed themselves to support the Peace Fund with financial assistance as requested by the GON and based on the Programme Document developed in January 2007 by the GON for the Peace Fund attached.
3. Whereas the financial contributions by the Donors will be decided on within the bilateral arrangements/agreements between the GON and the Donors.
4. Whereas the Donors have committed themselves to the principles of harmonisation as reflected in this Joint Financing Arrangement (hereafter referred to as 'JFA') and strive for the highest degree of alignment with the budgetary and accountability system and legislation of the GON so as to enhance effective implementation, reduce the administrative burden on the GON and minimise transaction costs.
5. Whereas the GON and the Donors have reached an understanding on common procedures for consultation and decision-making, disbursement mechanism, monitoring and reporting, review and evaluation, audit, financial management and the exchange of information and cooperation between the Signatories as reflected in this JFA.
6. Whereas respect for human rights, democratic principles, the rule of law and good governance, which governs the domestic and international policies of the Signatories, are the fundamental principles on which the cooperation among the Signatories rests and which constitute essential elements of this JFA.

Now, therefore, the Signatories have decided as follows:

**I. Goals of the Programme and scope of the JFA**

7. The overall objective of the Peace Fund is to support the successful implementation of the Comprehensive Peace Agreement (CPA) between the Seven Party Alliance Government and the CPM Maoists, thus establishing a long term peace in Nepal. This is stated in the Nepal Peace Trust Fund – Programme Document. The Programme Document indicates how the Government of Nepal intends to manage the Peace Fund to carry out activities in the five following areas - a. Management of Camps and Reintegration of Former Combatants; b. Rehabilitation of Internally Displaced People (IDPs); c. Election of Constituent Assembly; d. Strengthening of Law and Order and Police Administration; and e. Support to the Peace Process.
8. The Programme document will be brought up to date whenever required, taking into account evolving political and operational circumstances.
9. This JFA sets forth the jointly agreed terms and procedures for financial support to the Nepal Peace Trust Fund and serves as a coordinating framework for consultation with the GON, for joint reviews of performance, for common procedures on disbursement, for reporting and for audits.
10. The Donors will establish bilateral arrangements/agreements that are compatible with the spirit and provisions of this JFA and will refrain, as far as possible, from setting conditions in the bilateral arrangements/agreements which contradict or diverge from the spirit or provisions of this JFA. If there is any inconsistency or contradiction between the terms and conditions of this JFA and any of the bilateral arrangements/agreements, the provisions of the bilateral arrangements/agreements will prevail. Insofar as specific provisions of a bilateral arrangement/agreement deviate from the JFA, the Donor concerned will inform the other Donors thereof, by supplying a copy of it to each other Donor, specifying the provision(s) concerned.
11. The Donors will base their actual support on the results achieved by the Peace Fund. Progress will be measured through the procedures for reporting and review as described in Sections VIII and IX.
12. Retroactive financing for projects would be considered on a case-by-case basis where appropriate and warranted. Decisions on whether to permit retroactive financing, and to what extent, would be made by the Steering Committee at the time when proposals are reviewed. Such decisions would require prior approval of the Donor Advisory Group.

Retroactive financing would only be permitted under the following conditions:

- (a) The payments are for expenditures eligible for financing under the terms of the JFA and programme document;
- (b) The payments are for items that have been procured in accordance with procurement procedures consistent with the terms of the JFA; and,
- (c) The payments were made not more than 3 months before the expected date of retroactive financing. The date after which payments may be made will be recorded in the decision of the Steering Committee."

- (d) The source of retroactive financing and its utilization will be reported in the regular financial management report.

## **II. Responsibilities and Representation**

13. The GON will be fully accountable and responsible for all activities funded through the Peace Fund and for the management of the financial contributions of the Donors. The GON will keep financial records of the support provided in accordance with international accounting standards. The GON affirms that the support of the Donors will only be used to cover expenditures included in project budgets as approved by the GON, and only for the implementation of activities consistent with the Peace Fund Programme Document. The Donors will not bear any responsibility and/or liability to any third party with regard to the management of the Peace Fund or the implementation of activities funded through the Peace Fund.
14. Within one month of the establishment of the Peace Fund, a log frame will be developed in consultation with donors for each of the five work areas of the Peace Fund according to Annex B. These log frames will be used to monitor progress and report on performance.
15. A prerequisite to Donors' support through the Peace Fund is that the GON will identify priorities for funding and manage each component of the Peace Fund in consultation with the Communist Party of Nepal (Maoists), even before an interim government is formed.
16. The Donors are committed to support the Peace Fund in such a way that it can effectively and accountably be led by the GON, and they will facilitate implementation as far as possible without undermining the GON leadership.
17. The Donors will strive to ensure the predictability of their financial support by informing the GON as soon as possible of the support they anticipate providing for the period of three years which corresponds to the Peace Fund framework.
18. The Signatories will cooperate and communicate fully and in a timely manner with each other on all matters relevant to the implementation of the Peace Fund and this JFA. Signatories will share all information on aid flows, technical reports, and any other documentation/initiative related to the Peace Fund and its activities which are relevant to the support.
19. The GON will immediately inform all Donors of any circumstance which may interfere or threaten to interfere with the successful implementation of the Peace Fund with a view to resolve the issue and/or will call for a meeting to consult with the Donors on remedial action to be taken.
20. In matters pertaining to the implementation of this JFA, the GON will be represented by the Secretary, Ministry of Finance. The representatives of each Donor will be stated in the bilateral arrangements/agreements.

## **III. Contributions**

21. The Donors will inform the GON through the bilateral arrangements/agreements of their intention to support the Peace Fund and the time span of their support. The

contributions of the Donors may be subject to the approval of their respective parliaments and/or national appropriation rules.

22. Donors contribution to the fund will be made in instalments disbursed every four months. Donor will have the option of earmarking funds to one or more of the five areas mentioned under paragraph 7 as part of their bilateral agreement/arrangement with the GON.
23. Donor contributions will be channelled to a non-interest bearing US Dollar account held in the Nepal Rastra Bank in the name of GON/MOF - Nepal Peace Trust Fund. The Nepal Rastra Bank will deposit the amount received from the donors within two working days into the Peace Fund Account. The GON will immediately acknowledge the receipt of the funds in writing to the Donor concerned.
24. Where donors provide technical assistance to the Peace Fund and its operations, GON will exempt them from any related VAT, customs and any other duties and taxes.

#### **IV. Consultations, Decision Making**

25. Regular consultations among the Signatories are considered critical to continued engagement by the Donors and effective implementation of the Peace Fund.
26. GON will produce a financial and performance management report every four months and provide it at least a week in advance of the Donor meetings. The first report will be a brief overview, while financial and performance monitoring systems are being established. From the second time onward a detailed and comprehensive report on performance and expenditure should be produced and provided to the Donors.
27. Key subjects to be discussed during the consultations include assessment/review of performance/budget execution and priorities on the basis of agreed indicators; review of action plans/budget for the forthcoming period/ revenue and expenditure priorities; implementation of the JFA; follow up required on audits.
28. The results of the meeting will be recorded in Agreed Minutes. The Agreed Minutes will be drafted by the GON and a draft will be sent to all Donors, for their approval/comments, within a week after the meeting. The Donors will inform the GON of their approval/comments within two working days of receipt of the draft.
29. Additional consultation meetings may be requested by the GON and/or Donor(s) on any subject relevant to the implementation of the Peace Fund.

#### **V. Organisational structure**

30. A Steering Committee, chaired by the Finance Minister, will oversee the overall operations of the Peace Fund as per the Programme Document. The Committee will meet as and when required. Representatives from the Donor Group may be invited to participate as observers.
31. A Donor Advisory Group will be set up by the GON/MOF. The Group will review the performance of the Peace Fund and provide advice to the Steering Committee. The Donor Advisory Group will include all donors that have contributed or firmly pledged

US\$200,000 or more. It will normally meet every four months. However, it may decide to meet on a more regular basis, in particular during the initial lifecycle of the Peace Fund. One of the annual meetings of the Donor Advisory Group will consist in a wider review of the Fund's operations as described in paragraph 46. Furthermore, the meeting shall have the function of an Annual Meeting where the annual budget, financial reports, budgets and workplan for the next financial year are approved.

32. Coordination between the Signatories will be organised through the Donor Advisory Group to ensure proper planning, coordination and implementation of the Peace Fund. The Ministry of Finance will be responsible for representing the government at the meetings of the Donor Advisory Group. The chairperson of the Group will be selected by the Donors themselves. He/she will serve as donor focal point to interact with the Government, receive progress reports and other Peace Fund-related documentation, and raise issues of concern to the Donor Advisory Group.
33. A Technical Cell for Project Review will support the Steering Committee in reviewing the projects submitted for funding to ensure that: i. They are designed to make a strategic contribution to the implementation of the Peace Agreement; ii. They are aligned with the approved priorities and policies of the Peace Fund; and, iii. Their funding requirements can be met with available Peace Fund resources. The review process will also pay special attention to the inclusion, consultation and needs of women, in accordance with UN Security Council Resolution 1325. It will also consult with and address the needs of other discriminated groups. Following its review, the Technical Cell will forward each project submission along with its recommendations to the Steering Committee, with a copy to the Donor Advisory Group.
34. The Technical Cell will be located within the Peace Secretariat.
35. A one time fee of 1% of each donor contribution will be charged for the financial and associated management arrangements (i.e. evaluations, annual reviews, logistical supports, office equipment, communication, etc). This cost will be used by the government on the basis of actual funds disbursed by donors, rather than the total allocation to the Peace Fund. The Ministry of Finance will report on the use of these funds, as any other expenditure in the regular trimesteral FMRs and annual audit reports.

## **VI. Disbursements**

36. A common disbursement mechanism for donor contributions will be decided upon between the GON and the Donors before the Peace Fund starts operating, and at the start of each fiscal year of the GON. The signatories will meet to review and endorse the financial management report, and agree on bilateral disbursements on a trimester basis subject to submission by the Fund of the financial and progress report.
37. The first instalment will be released in March 2007, upon signing of JFA and bilateral MOUs subject to the GON having put in place a coordinated and inclusive process to:
  - i. Develop a strategy, log frame and costed action plan for each Peace Fund component; and,
  - ii. Identify clear priorities and funding criteria for the Peace Fund.
38. Subsequent instalments will be disbursed by the Donors subject to satisfactory results of the performance and financial management reports provided every four months, as well as the financial forecast for the following period. Donor instalments will be linked to the Donor meetings and will be conditional on satisfactory use of resources in the

Fund to achieve results in the five work areas of the Peace Fund. Disbursement for subsequent financial year will also be subject to receiving of annual audit report.

39. GON will return to respective donors any unspent funds at the end of the programme.

## **VII. Procurement**

40. The GON undertakes to effect all procurement of works, goods and services financed with Peace Fund resources and is responsible for the contracts to be signed.
41. All procurement will be performed in accordance with generally accepted principles and good procurement practices. Until such date of entry into force of the new procurement law, procurement will be performed in conformity with the GON's regular procedures and regulations as described in the Financial Administration Regulations ("FAR") of the GON (2056 and as amended), unless otherwise provided for below.
42. Procurements requiring National Competitive Bidding (NCB) will follow the GON procurement guidelines with the following exemptions to FAR 2056 to ensure compliance with generally accepted principles and good procurement practices:
- a. Bid opening at only one place, and immediately after the deadline for bid submissions;
  - b. All bidders must provide performance securities if so required by the letter of invitation without exemption (Regulation 86 of FAR 2056 as amended);
  - c. No preference for local bidders competing with foreign bidders in NCB (Regulation 58 (3) of FAR 2056 as amended);
  - d. No provision for debarring foreign bidders from bidding for contracts less than NRS 250 million (Regulation 73 (2) (Ta) (2) of FAR 2056 as amended); and
  - e. Bidders' qualification criteria will be according to UNDP's standard procedures.
43. For international competitive bidding, UNDP's Contracts, Assets and Procurement Guidelines will apply until such date of entry into force of the new procurement law currently being discussed in which case the Signatories will agree on applying procedures under the new procurement law for all procurements.
44. In exceptional circumstances justified by the need to take quick action in support of the peace process, a government entity recipient of Peace Fund resources may request the Steering Committee to waive the requirement for a competitive bidding process.
- a. The request must explain why time does not permit the normal procedure to be followed, and the alternative procurement arrangements that the government entity proposes to make;
  - b. If the Steering Committee approves the request, the government entity must retroactively submit a copy of the signed contract to the Peace Fund Secretariat, along with all relevant justifications for the selection of the contractor.

45. The GON will, upon request, furnish the Donors with all relevant information on its procurement practices and actions taken, and provide access to all related records and documents.

### **VIII. Reporting**

46. The GON will provide the Donors with all information relevant to the activities of the Peace Fund. Every four months, it will provide a financial and progress report on all Peace Fund activities according to Annex C and D for each of the five work areas of the Peace Fund. The first report will be a brief overview, while financial and performance monitoring systems are being established. Subsequent reports will cover in more detail disbursement of funds, and progress against targets and milestones. This will be the basis on which donors will disburse funds.
47. The financial reporting should compare costs for actual activities for the current reporting period with the budget for the same period, and in the same currency. The financial reports should be prepared in a format and at a level of detail that enables comparison of the budget with actual progress.

### **IX. Review, Evaluation and Auditing**

48. The review process of the support of the Donors to the Peace Fund will be common for all Donors and will be aligned with the GON's review process. The GON and the Donors will maintain a close dialogue regarding the support and the implementation of the Peace Fund. Performance will be measured against the objectives described in the Programme Document.
49. Joint progress reviews will be carried out every year by the GON and the Donors under GON leadership. Terms of reference for these review missions will be decided upon jointly by the Signatories. Review missions will be scheduled in such a way that the Peace Fund planning process is facilitated and that the need for input into the policy dialogue and decision-making processes of the Donors are accommodated to the extent possible. The costs of review/evaluation missions will be borne by respective donors and GON as appropriate.
50. Signatories will promptly distribute all review/evaluation reports to one another.
51. At any point during the lifecycle of the Peace Fund, donors will have may ask the Steering Committee to commission an independent performance related audit of the operations of the Fund to identify progress, areas for improvement and key lessons learned. The selection of the auditors, timing and TORs will be managed in close collaboration with all the signatories.. Based on the outcome of such audit the pooling donors will convey to GON any corrective measures they consider needed to be undertaken. The financing of such audits will be covered by the donors.
52. GON will provide to the donors within nine months of the end of each GON financial year an audit report of the Peace Fund expenditures of the previous year. The audit will be carried out by the Office of the Auditor's General of the GON.
53. The Donors will to the extent possible refrain from conducting unilateral reviews/evaluations/audits of the Peace Fund. However, when a single Donor or Donors Group collectively are required to conduct an independent unilateral review/evaluation/audit, the Donor or Donors Group will in a timely fashion consult

with the each other Donors to discuss/reach a common position/decide on Terms of Reference (ToR), composition and scheduling of the proposed mission. The GON will be consulted immediately on the proposed schedule and ToR. The cost of such missions will be borne by the individual donor or jointly as appropriate. In such as a case the review/evaluation/audit report will be shared with all other Signatories.

#### **X. Non-compliance, Force Majeure**

54. In the case of non-compliance with the terms of this JFA and/or violation of the fundamental principles set out in this JFA on the part of the GON, the Donors may suspend further disbursements to the Peace Fund and reclaim the funds already transferred in whole or part. Such non-compliance could include inter alia substantial deviations from agreed plans and budgets, misuse of funds, and non-compliance with agreed prior actions relating to the implementation of the Peace Fund.
55. If a Donor intends to suspend new disbursements or terminate its support, the Donor will call for a meeting with the other Signatories in order to reach a joint position on the measures, remedial or otherwise, required or to inform the other Signatories of its intentions regarding the continuation or discontinuation of support.
56. The Donors may suspend or reduce new disbursements in the event of extraordinary circumstances beyond the control of the GON which hinder effective implementation of the Peace Fund. If the Donors consider suspending new disbursements they will consult with the GON reasonably long in advance. The suspension will be lifted as soon as these circumstances have ceased to exist and appropriate remedial actions have been implemented by the GON.

#### **XI. Corruption**

57. The GON will require that its staff and consultants under the Peace Fund will be prohibited from offering third parties, or seeking, accepting or being promised from or by third parties, for themselves or for any other party, any gift, remuneration, compensation or benefit of any kind whatsoever, which could be interpreted as an illegal or corrupt practice.
58. The GON will promptly inform the Donors of any instances of corruption as referred to in this paragraph.

#### **XII. Modification, Donor accession and withdrawal**

59. The Signatories will annually review/discuss the implementation, application and effectiveness of the procedures outlined in this JFA.
60. Any modification/amendment of/to the terms and provisions of this JFA will only be approved if agreed in writing by all Signatories.
61. The Signatories welcome participation in this JFA by other Donors who wish to support the Peace Fund.

62. Upon a new Donor's written request and written acceptance of the terms and conditions of this JFA, the GON may, as an annex to this JFA authorise in writing that Donor to become a Signatory. The GON will promptly consult with the other in advance and furnish them with a copy of the letter of acceptance.
63. Each Donor may withdraw/terminate his support for the Peace Fund by giving the other Signatories three months written notice. If a Donor intends to withdraw/terminate its support, that Donor will call for a meeting to inform the other Signatories of its decision and discuss the consequences for the Peace Fund.

### **XIII. Dispute settlement**

64. If any dispute arises between Signatories as to the interpretation, application or implementation of this JFA, Signatories will consult with each other in order to reach an amicable solution.

### **XIV. Entry into effect**

65. This JFA enters into effect for a given Donor on the date of signature by the GON and that individual Donor, and will remain in effect for three years and until all mutual obligations are fulfilled.

## Annex A: Joint Signatories

### Signed by the Government of Nepal

Signature: \_\_\_\_\_

Name: Vidhyadhar Mallik

Position: Secretary, Ministry of Finance, Kathmandu Date: \_\_\_\_\_

### Signed by the United Kingdom of Great Britain and Northern Ireland acting through the Department For International Development (DFID)

Signature: \_\_\_\_\_

Name: Bella Bird

Title : Head, DFID Nepal

Date: \_\_\_\_\_

### Signed by Ministry of Foreign Affairs of the Kingdom of Norway

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Title : \_\_\_\_\_

Date: \_\_\_\_\_

### Signed by Switzerland represented by Swiss Agency for Development and Cooperation

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Title : \_\_\_\_\_

Date: \_\_\_\_\_

### Signed by Government of Finland

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Title : \_\_\_\_\_

Date: \_\_\_\_\_

### Signed by Government of Denmark

Signature: \_\_\_\_\_

Name: \_\_\_\_\_

Title : \_\_\_\_\_

Date: \_\_\_\_\_

## Annex B: THE LOGICAL FRAMEWORK

The log frame below will be used to monitor progress in each of the five work area of the Peace Fund. It will also be used for each individual project submitted to the Peace Fund for funding. It aims to:

- Capture in a clear and concise way all the key components of the programmes/ projects submitted to the Peace Fund
- Explain how the programmes / projects are expected to work, helping to ensure that inputs, activities, outputs and objectives are not confused with each other.
- Provide a basis for monitoring and evaluation by identifying progress indicators.

<b>Objectives</b>	<b>Mesurable indicators</b>	<b>Means of Verification</b>	<b>Important assumptions</b>
Peace Implementation Objectives <i>Wider problem the programme project will help to resolve</i>	Quantitative ways of measuring or qualitative ways of judging timed achievement of goal	Cost- effective methods and sources to quantify or assess indicators	External factors necessary to sustain objectives in the long run
Immediate Objectives: <i>The immediate impact of the programme project on an area or target group i.e. the change or benefit to be achieved by the programme project</i>	Quantitative ways of measuring or qualitative ways of judging timed achievement of purpose	Cost effective methods and sources to quantify or assess indicators	<b>(Immediate Objective to Peace Implementation Objective)</b> External conditions required in order for the programme / project to contribute to reaching the long term goal
OUTPUTS: <i>The specifically deliverable results expected from the programme project to attain the objectives</i>	Quantitative ways of measuring or qualitative ways of judging timed production of outputs	Cost- effective methods and sources to quantify or assess indicators	<b>(Output to immediate objectives)</b> Factors out of programme/project control which, if present, could restrict progress from outputs to achieving programme project objectives
ACTIVITIES: <i>Tasks to be done to produce the outputs</i>	INPUTS: This is a summary of the programme/ project budget (sub-budgets and total)	Financial report	<b>(Activity to output)</b> Factors out of programme/ project control which, if present, could restrict progress from activities to achieving outputs

### Annex C: THE PROGRAMME/PROJECT BUDGET

Budget will be based on the following Standard Format:

CATEGORY	ITEM	UNIT COST	NUMBER OF UNIT	TOTAL COST
<b>1. Personnel:</b> • Including staff and consultants				
<b>2. Contracts:</b> • Including companies, professional services, grants				
<b>3. Training</b>				
<b>4. Transport</b>				
<b>5. Supplies and commodities</b>				
<b>6. Equipment</b>				
<b>7. Travel</b>				
<b>8. Miscellaneous</b>				
<b>9. Management Costs of Implementing Entity*</b>				

\* The rate shall be within an agreed range of 5% to 7% of the total categories 1-8. To the maximum extent possible such costs should be integrated into categories 1-7 if appropriately determined as "direct costs attributable to the programme project" thereby reducing the overall indirect cost rates.

## **Annex D: STANDARD PROGRESS REPORT OUTLINE**

**Peace Fund Work Area:**

**Implementing Entity:**

**Programme/ Project No and Programme/Project Title:**

**Reporting Period:**

### **I. PURPOSE**

This section is a resume of the Programme/ project as approved in the programme/ project submission to the Management Board. It includes:

- Main Objectives and outcomes expected as per approved programme/project Document.
- Reference to how the programme/ project relates to the overall peace building strategy and how it aims to support the implementation of the peace agreements.
- A listing of the main implementing partners involved.

### **II. RESOURCES**

This Section includes total approved budget and summary of resources available to the programme/project from the Peace Fund and non-Fund resources, identifying earmarking if applicable.

### **III. RESULTS**

Information in this section includes:

- An assessment of the extent to which the various components of the programme/ project are progressing in relation to the outcome and outputs expected for the year.
- Main activities undertaken and achievements.
- Implementation constraints, lessons learned from addressing these and knowledge gained from evaluation and studies that have taken place during the reporting period.
- Key partnership and inter-agency collaboration: impact on results.
- Other highlights and cross cutting issues pertinent to the results being reported on.

### **IV. FUTURE WORKPLAN**

Information in this section includes:

- Priority actions planned for the subsequent reporting period to overcome constraints, build on achievements and partnerships, and use the lessons learned during the previous period.
- Indication of major adjustments in the strategic, targets or key outcomes and outputs.
- Estimated Budget required (including any major funding shortfalls).