

## **ANNEX 2.1C: DDF Letter of Intent**

### **Letter of Intent On the District Development Fund**

The Government of Ghana (GoG) has committed itself strongly to start the District Development Fund (DDF) in 2008 and the Development Partners (DPs) intend to support the GoG. For the launch of the DDF a number of prerequisites still have to be achieved. This Letter of Intent outlines major agreements reached on funding and implementation arrangements between GoG and DPs intending to co-finance the DDF starting in 2008 / 2009 (Danida, AFD, KfW, CIDA). Longer-term support is envisaged.<sup>1</sup>

#### **0. Introduction**

The envisaged DP support to the DDF is based on the following mutual understandings:

- The DDF will be established as a performance based financial instrument and its financial management will follow the processes relevant to all funds that are charged to the Consolidated Fund.
- The intention of GOG is to align, in the medium term, the modalities of funding streams to MMDAs.
- There was an agreement of the DDF SC that the Operational Manual (OM) will be further developed based on the experience of the first year and changes will be subject to approval by the SC. The agreements reached in this LOI should be reflected in the next revision of OM.
- DP support to the DDF will be complemented by technical assistance to the DDF Secretariat and Local Government Service Secretariat (LGSS) of the Ministry of Local Government and Rural Development and Environment (MLGRDE), as well as the Ghana Audit Service (GAS), the Administrator of the District Assemblies Common Fund (DACF Administrator) and MMDAs.

The March 2008 appraisal was based on the “District Development Funding Modality” dated March 2007, approved by cabinet, and the “Operational Manual” (OM) dated December 2007.

After completion of the appraisal process<sup>2</sup> within their institutions, AFD and KfW will propose Loan Agreements to be signed with MOFEP representing the GOG. KfW will further sign a separate agreement with MLGRDE on the details of the DDF concept. Danida will allocate its grant for 2008 on the basis of an existing agreement, while the contribution from 2009 onwards from Danida and CIDA will require Grant Agreements still to be finalised. No final decision by CIDA to provide financing has been made, though it is under serious consideration.

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<sup>1</sup> An Aide Mémoire (AM) will summarize the findings and recommendations of the joint GoG DP appraisal mission of the DDF

<sup>2</sup> Which may include for AFD a formal appraisal mission

Coordination of the support provided by DPs is envisaged. Annex 1 gives an indicative overview of the essential components of 2008 to 2010 technical assistance and potential DP support.

## 1. Organisational Set-Up of the District Development Fund

The **DDF SC** is the governing body of the DDF. The DDF SC approval of the latest OM changes as well as the FOAT results and consequent DDF allocations must occur before the flow of funds to MMDAs. The exact procedure for subsequent modifications of the OM and for approval of these modifications by the DDF SC has to be clarified.

The GOG contribution of GHC 10 million to the DDF in 2008 has been submitted to Parliament for approval (*required prior to KFW/AFD loan agreement*). The GOG contribution is net of any management fees. **The DACF Administrator will formally designate a senior officer responsible for the handling of DDF** (*prior to first disbursement KFW/AFD*).

The SC has assigned some responsibility for the Secretariat of the DDF to the Decentralisation Secretariat (DS). The **DDFS** will assume coordination of the DDF for the SC, organise the FOAT assessment, further develop the implementation mechanisms, oversee the monitoring and evaluation and assume the overall reporting on DDF, as described in the OM. **MLGRDE will ensure the required additional staffing of at least 5 professional staff** (see District Development Funding Modality approved by Cabinet, p. 9) **in time, ensure sufficient resources for its operation and nominate formally the coordinator of the DDFS** (*prior to first disbursement KFW/AFD*). On the basis of an approved DDF short and medium term work-plan (end of April 2008), required technical assistance will be identified.

**LGSS** is responsible for the national level capacity building activities based on the outcome of the FOAT (mandatory CB). The LGSS component of the 2008 MLGRDE budget does not reflect the significant task assignments or staff skill sets required within LGSS and does not reflect the mandatory CB as a separate activity. **MLGRDE will ensure 2 - 3 senior professional staff from April 2008 onwards, the designation of a senior officer and resources** to execute LGSS' mandate related to the DDF (*prior to first disbursement KFW/AFD*). The LGSS will update its 2008 and 2009 Action Plan by April 2008.

**LGSS and MLGRDE will need to improve and intensify their communication.**

## 2. Allocation of the DDF funds

For 2008, new districts are allocated funds based on the assessment of the district they originate from and receive development and capacity building grants according to the DDF formula. There will be no deduction at source or earmarking of development grants. On the basis of the 2008 experience, LGSS and DDFS will recommend to SC, if required, amendments to the OM for the allocation of the 2009 CB grant to MMDAs.

The DDF Secretariat will manage USD 500.000 per year for the FOAT assessment from 2009 onwards out of the mandatory CB component. The costs the FOAT assessments in 2008 (DDF cycle 2008 and 2009) are covered by Danida and AFD (CBRDP). The LGSS will manage the remainder of the mandatory CB funds.

All MMDAs have to reflect the DDF development grant and CB grant in their budget or supplementary budget. The MLGRDE must reflect the mandatory CB grant in its budget or supplementary budget.

### **3. Goods and Services to be financed from the DDF**

#### *3.1 Development Grants*

Goods and services to be financed from DDF development grants follow the provision of the OM with the following amendments still to be approved by the SC: (i) to allow for up to 10% item III expenditure (services) for maintenance and (ii) to allow for equipment required for the full functionality of allowable works (e.g. classroom furniture, water pumps).

#### *3.2 Capacity Building*

DDF CB grants can fund expenditure justified by the FOAT exercise and only according to the CB allowed menu for support approved by SC.

### **4. DDF Implementation**

#### *4.1 FOAT Assessment*

The FOAT assessment for the 2008 DDF allocation is to be completed by April 15, 2008 and will be published after approval of results by SC. The assessment for the 2009 allocation will start in July 2008 after MMDAs have closed their 2007 accounts. The DDFS will provide LGSS with a copy of the assessment reports. On this basis, LGSS will develop the activities to be financed under the mandatory CB and formulate a work-plan to be approved by the SC.

#### *4.2 Funding Decisions and Flow of Funds*

In order to ensure timely provision of funds to MMDAs in 2008, Danida and GOG will provide their funds in July 2008, and KFW will disburse after GOG has transferred funds to the DDF account. Continued donor support to the DDF after 2009 is intended.

**DDF Funding Summary 2008 & 2009 (in million USD\*):**

Source of Funds	2008	2009	Comments
GOG	10.0	16.0	GOG share should increase
Danida	2.5	3.0	2.5 already approved within existing projects, 2009 - 2013 subject to approval of new programme with a volume of approx. USD 40 million for the DDF components
KFW	12.0	9.0	(new) EUR 13m earmarked + (old) approx. EUR 2m committed subject to KFW appraisal; KFW envisages longer term support, subject to bilateral Government negotiations
AFD	0.0	7.0	provision of EUR 15m (new) for 3 years subject to approval by AFD board
CIDA	0.0	tbc	seeking approval for funding from 2009 to 2014
<b>Total</b>	<b>24.5</b>	<b>35.0</b>	

\* at current rate; exact value of conversion will derive from exchange rates at the time of disbursement

MOFEP will advise CAGD to establish a foreign currency account for each DP with Bank of Ghana (BOG) as well as one joint DP-GOG DDF grant account in Ghana Cedis (GHC)

within BOG Consolidated Fund. CAGD will convert donor funds to the GOG DDF account within 10 days.

SC approves the allocation to the individual MMDAs as well as the allocations for the mandatory CB to DDF Secretariat and LGSS. The DACF Administrator will advise MoFEP to release GOG portion of the DDF to the GOG DDF account. The DACF Administrator will further advise MOFEP to release DDF funds directly to the MMDAs according to the allocation approved by SC (see Annex 2 for the timing of releases). DACF Administrator will advise MOFEP to warrant the mandatory CB component to MLGRDE and LGSS. MLGRDE (DDFS) and LGSS will draw the funds for the mandatory CB component according to financial regulations for MDAs.

Interest on the foreign currency accounts as well as on the GHC joint DDF account will accrue to the DDF fund.

#### *4.3 Procurement*

All procurement will follow national procurement guidelines. For CB grants, MMDAs can be required to use accredited service providers for specific CB components. Reimbursement of costs (e.g. transport, accommodation) to personnel of Ministries, Departments or Agencies engaged to provide CB will have to be in line with the Allowance Practices and Rates Common Framework for DPs in Ghana.

#### *4.4 Monitoring, Reporting and Evaluation*

MMDAs / LGSS will copy the DACF Administrator on their monthly and annual financial accounts to CAGD. The reporting format will be the format contained in the MMDA financial accounting manual or otherwise determined by the CAGD. CAGD will include – if necessary – additional reporting requirements approved by the DDF SC in the CAGD standard reporting formats. The DACF Administrator will transmit the consolidated reports quarterly to the DDFS and prepare a consolidated annual financial report to SC.

The DDFS will ensure receipt of quarterly operations reports from MMDAs / LGSS as well as a copy of the consolidated quarterly operations report from RPCUs. The reporting format will be the format prescribed by the MMDA Planning Guidelines and the MMDA M&E Guidelines of NDPC. The DDFS will prepare quarterly DDF reports to the SC aggregating and analysing the financial reporting as well as the operations reports. The DDFS will submit quarterly reports latest 2 months after the end of the each quarter. The annual report will be submitted latest three months after the end of the financial year.

There will be a joint GOG – DP evaluation of the DDF in 2010 or 2011.

#### *4.5 Auditing*

Government of Ghana Audit Service (GAS) will perform as part of their routine activities, annual operational audits of MMDAs, DACF, MLGRDE, LGSS and MOFEP and any other beneficiary institution or account holder of DDF funds. The DDF resources made available to these institutions and the DDF accounts opened by MOFEP will be part of these annual audits. The audits shall follow either International Standards of Auditing (ISA or audit standards issued by the International Organisation of Supreme Audit Institutions (INTOSAI).

GOG will make sufficient resources available to GAS to complete these tasks within six months after the close of each financial year.

Within the envisaged TA support to the DDF implementation (see Annex 1), provision is made for GAS to contract external services to aggregate all GAS audit findings related to the DDF management as well as for additional special audits to address problems identified. The SC will receive the aggregated report of GAS audit findings related to the DDF management latest 9 months after the close of each financial year. GAS will suggest the content of special audits to be funded by TA to the DDF SC and DPs for approval.

## **5. Inclusion of New Development Partners**

Any new DP wishing to cooperate with the GOG as a participant under the provisions of this Memorandum will be free to do so upon signing this Memorandum. The new participants will be required to present their programmes to the signatories of this Memorandum.

Signed this March 14, 2008 in Accra

For the MLGRDE

For AFD

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For the MOFEP

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For KFW

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For Danida

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For CIDA