

**Ten-Year Development Partnership Arrangement Between
The Government of the Islamic Republic of Afghanistan and
The Government of the United Kingdom of Great Britain and Northern Ireland
(The “Arrangement”)**

Purpose

1. This Arrangement reaffirms the development partnership between the Government of the Islamic Republic of Afghanistan (GoA) and the Government of the United Kingdom of Great Britain and Northern Ireland (UK). It sets out the shared and individual commitments in the development partnership made by the two Governments. It provides a transparent framework for mutual accountability for implementation of the development partnership, and between each Government and its Parliament and people.
2. This Arrangement covers only UK commitments on international development assistance provided through its Department for International Development (DFID). Other UK commitments are covered under the Enduring Relationship.

Shared commitments

3. Both Governments have shared commitments on the following:
 - a) Reducing poverty and the Millennium Development Goals;
 - b) Respecting human rights and other relevant international obligations; and
 - c) Strengthening financial management and accountability, which reduces the risk of funds being misused through weak administration or corruption.

UK commitments

4. DFID makes the following commitments under this Arrangement:
 - a) To support delivery of the Afghanistan National Development Strategy;
 - b) To provide development assistance in a predictable, transparent and accountable way, and timely information on planned allocations, using the Government of Afghanistan’s own systems and procedures as far as possible;
 - c) To work with other development partners, including international financial institutions, to improve alignment and harmonisation of development assistance around the Afghanistan National Development Strategy and to limit the burden of conditionality;
 - d) To implement the Paris Declaration commitments on aid effectiveness, and to monitor implementation against the internationally agreed indicators (subject to any mutually agreed local amendments to these indicators);

- e) Subject to the availability of resources to DFID, to provide the following indicative funding:
- (i) Three-year rolling commitments on total DFID assistance to Afghanistan: initially a total indicative package of bilateral development assistance from DFID between 2006/07 and 2008/09 in support of the GoA's poverty reduction objectives of £330 million. Continued support in the form of development assistance through to 2015/16 is subject to GoA's adherence to the commitments set out in this Arrangement and its ability to absorb aid effectively. The specific modalities of allocating the package of bilateral development assistance and disbursements will be covered in separate discussions.
 - (ii) At least 50% of total DFID assistance will go through the GoA Budget, using channels agreed between DFID and GoA, with the intention of moving towards Poverty Reduction Budget Support (PRBS)¹ or other forms of direct support. DFID will assess whether circumstances are appropriate for PRBS on the basis of: (a) GoA's planned budget priorities in support of poverty reduction; (b) the status of administrative, technical and financial systems; and (c) the specific costs and benefits of PRBS against other types of aid.
 - (iii) A proportion of the DFID programme will be channelled, depending on need, through high quality technical cooperation to build Afghan capacity, and through civil society or international organisations, which will be consistent with the Afghanistan National Development Strategy.
- f) To increase transparency and accountability, including decisions on development assistance and the evidence on which these are based;
- g) To regularly review the overall level of bilateral development assistance, and the focus of the DFID programme components; and
- h) To maintain regular dialogue on this Arrangement's commitments and ensure that dialogue takes place before any major decisions affecting the partnership are taken.

GoA commitments

5. In addition to the three commitments set out in paragraph 3 above, GoA makes the following commitments under this Arrangement:
- a) To develop and implement the Afghanistan National Development Strategy through broad consultation processes, and translate this into a prioritised list of programmes with clear outcomes, underpinned by fiscal sustainability and annual budgets;
 - b) To support poverty reduction and economic growth through:

¹ **Poverty Reduction Budget Support** (PRBS) is a form of financial aid in which funds are provided: in support of a government programme typically focussing on growth, poverty reduction, fiscal adjustment, and strengthening institutions, especially budgetary processes; and directly to a partner government's central exchequer, to spend using its own financial management, procurement and accountability systems.

- (i) Sound macroeconomic management to ensure macroeconomic stability and sustained growth;
 - (ii) Sound public financial management, with increasing transparency and public accountability in the budget cycle and medium term economic planning, to ensure that public funds (both domestic and external) are used for their intended purposes, are properly accounted for, and provide value for money; and
 - (iii) Private sector development, by creating the conditions in which a dynamic and competitive private sector can grow and contribute to poverty reduction;
- c) To improve transparency and good governance by strengthening state institutions and public administration reform, sound public finance management and increased revenue mobilisation, strengthening statistical capacity, reinforcing counter-narcotics efforts, and delivering public services effectively and efficiently;
 - d) To provide leadership in developing better donor coordination and harmonisation with a view to improving the quality and effectiveness of external assistance to GoA;
 - e) To ensure an effective dialogue between GoA and its international partners, maintaining systems for monitoring progress against GoA commitments in relation to the three areas of shared commitments of this Arrangement, and using appropriate mechanisms for discussing this progress with donors and with domestic stakeholders; and
 - f) To report on the development impact of support channelled through its systems and processes. Reporting on development impact will require strengthening of statistical systems and poverty analysis capacity as part of its Afghanistan National Development Strategy.

Monitoring and review

- 6. Partnership talks will mutually review and assess the performance of each side in relation to:
 - (i) The commitments made by GoA in this Arrangement (under 3 and 5);
 - (ii) The specific commitments made by DFID under section 4 of this Arrangement.
- 7. Benchmarks will be decided between GoA and DFID to monitor and review progress on commitments as set out in 6 above. Benchmarks will draw where possible on GoA's existing systems for monitoring and reporting, and will include outcome indicators from the Afghan National Development Strategy.
- 8. There will be regular bilateral dialogue at political and official levels, but reviews will be aligned to the extent possible to GoA's existing systems for monitoring and reporting. To inform such reviews, independent experts may be commissioned in advance to provide an assessment of progress, including publicly monitoring and reporting against performance in implementing the Arrangement by both Governments as set out in 6 above.

Responding to a breach of partnership commitments

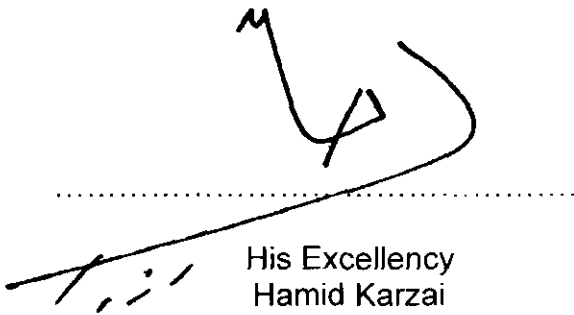
9. GoA will have breached the partnership commitments if DFID determines that GoA has moved significantly away from any one of its commitments set out in 3 and 5 above.
10. Except in extreme circumstances, DFID will allow for a period of time to discuss its concerns, explain the potential implications of the breach, and seek remedial action. Where appropriate, disbursements will continue during the period of dialogue.
11. If there has been a breach of the partnership commitments, DFID may take any of the following actions:
 - a) Signal a possible future response;
 - b) Delay all or part of a specific aid disbursement to GoA;
 - c) Change the way it delivers aid to GoA;
 - d) Switch some or all of its aid away from GoA to non-Government channels; or
 - e) Reduce or stop aid to Afghanistan.
12. DFID's response will depend on the following two factors.
 - a) The seriousness of the specific situation and circumstances that led to a breach of the partnership commitments. In particular DFID will consider the scale, severity and trend of the change.
 - b) The impact that any decision will have on poor people and longer-term poverty reduction efforts.
13. In the event of a crisis, DFID will immediately seek discussions at the most senior levels of GoA and, reciprocally, will ensure swift access to DFID Ministers.

Duration

14. If the arrangements set out above are acceptable to both Governments, this Development Partnership Arrangement will place on record the understanding of the two Governments and will come into operation on the date of signature below, and will remain valid for a period of ten years. In the event of translation the English text of this document will prevail.
15. The Arrangement can be terminated by three months' written notice by either Government. It is accepted nonetheless that any decision of either Government regarding suspension, termination or amendment of the Arrangement will first be subject to dialogue between the two Governments. Equally, modalities of resumption will be subject to thorough discussion.

Authorisation

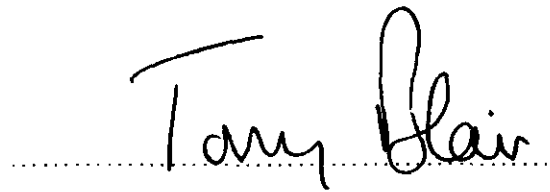
16. The undersigned, on behalf of their respective Governments, have signed this Arrangement in two originals on 31 January 2006:



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His Excellency
Hamid Karzai

President
Islamic Republic of Afghanistan

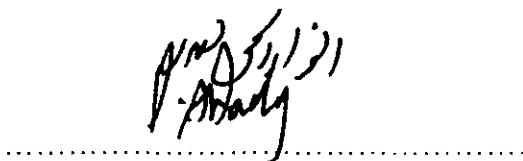


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Rt Hon
Tony Blair MP

Prime Minister
United Kingdom of Great Britain and
Northern Ireland

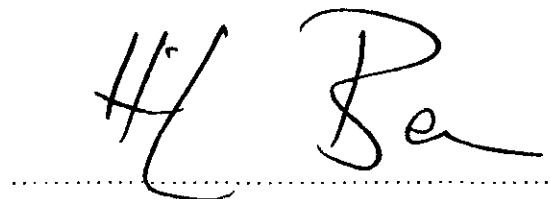
17. Witnessed by:



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His Excellency
Dr. Anwar-ul-Haq Ahady

Minister of Finance
Islamic Republic of Afghanistan



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Rt Hon
Hilary Benn MP

Secretary of State for International
Development
United Kingdom of Great Britain and
Northern Ireland