****

**UNDP engagement in sector budget support and pooled funding**

**Guidelines and procedures for country offices and headquarter units**

**Version 1.0**

March 2009

**Table of Contents**

1. Purpose and scope, *1*

2. Rational for UNDP engagement, *1*

2.1 UNDP in the changing development and aid environment, *1*

2.2 Definitions, *2*

2.3 Decisions by the Executive Board 2008, *3*

3. Terms of UNDP engagement, *4*

3.1 Guiding principles and options, *5*

4. Operational framework for UNDP financial contributions, *8*

4.1 Framework memorandum of understanding, *8*

4.2 Cost-sharing agreements, *8*

4.3 Ceilings not to be exceeded, *8*

4.4 Implementing partners, *7*

4.5 Programming process, *9*

4.6 Transferring funds, *13*

4.7 Financial monitoring*, 14*

4.8 Audit requirements, *15*

4.9 Annual reporting, *15*

4.10 Extension and augmentation, *16*

4.11 Evaluation, *16*

**Annexes**

Annex 1. Appraisal checklist, including capacity assessment, *18*

Annex 2. Checklist for the assessment of implementation capacities, *21*

Annex 3. The roles of headquarter units, *26*

Annex 4. Minimum requirements for a Framework Memorandum of Understanding, *27*

Annex 5. Standard template for sector budget support agreements, *28*

Annex 6. Routing slip for headquarters, *32*

Annex 7. Frequently-asked questions, *33*

**Tables and Figures**

Table. What UNDP can and cannot do, *5*

Figure 1. Operational framework for UNDP financial contributions, *7*

Figure 2. Procedures for preparation, review, clearance and approval, *12*

# 1. Purpose and scope

This note provides guidance to country offices working in a direct budget support environment and describes options available to UNDP. It also spells out procedures established to facilitate formulation, advisory support, clearance, and approval of requests to participate specifically in sector budget support or pooled funds under the terms of the policy. In so doing, it offers practical steps for the implementation of Executive Board decisions on UNDP engagement in sector budget support and pooled funding.[[1]](#footnote-1)

The note explains:

* The rationale for UNDP engagement in sector budget support and pooled funding;
* Options for country office engagement in a sector budget support environment following the above-mentioned decisions by the Executive Board;
* Principles and procedures for engaging in these options.

# 2. Rationale for UNDP engagement

## 2.1 UNDP in the changing development and aid environment

The development and aid environment at the country level is changing. This is characterized by emerging modalities, an increasing variety of development partners, and a series of international commitments on aid effectiveness and quality within a much larger transformation in the development landscape. These changes offer new opportunities for development financing but challenges remain and, in some cases, are more acute than ever and include, for example: deepening coherence and harmonization among multiple development partners; supporting strengthened national leadership; aligning aid with national development priorities; and using of national systems for delivery of aid.[[2]](#footnote-2)

The inclusion of direct budget support as an aid modality is viewed by some to be a step towards addressing the above challenges. There is increased interest among some programme country governments and donors in using direct budget support, as one financing modality available to them, to provide, monitor and manage development finance directly through national budgets.[[3]](#footnote-3)

UNDP support is complementary to the rest of the United Nations development system and other development partners. If focuses on: (a) strengthening national capacities to design national aid policies and strategies; (b) mapping external resource needs; (c) accessing and negotiating relevant sources of development finance for ongoing and emerging needs; (d) strengthening national systems to manage, monitor and deliver such aid; and (e) increased engagement with national systems. In line with the common UNDG approach to capacity development,[[4]](#footnote-4) UNDP emphasizes the strengthening of national capacities through capacity assessments. The Organization further supports national capacities to diagnose, prioritize, formulate, implement, monitor implementation, and independently evaluate responses..

Upon demand from programme governments, UNDP also supports resident coordinators to determine the positioning and role of the United Nations system in the national aid environment. As part of the United Nations system, guided by the Triennial Comprehensive Policy Review, UNDP provides access to substantive expertise, global good practice and international standards, including those that are proposed by the OECD/DAC Paris Declaration and the Accra Agenda for Action.[[5]](#footnote-5)

## 2.2 Definitions

Direct budget support is a method of financing the budget of a programme country through a transfer of resources from an external financing agency to the national treasury of the programme government. It supplements public expenditure on national priorities. Direct budget support can take two forms:

* ***General budget support.*** This represents un-earmarked contributions directed at overall government policy and expenditures
* ***Sector budget support.*** This represents earmarked contributions to the national budget towards sector- or programme-specific results

Resources transferred into direct budget support funds are managed in accordance with the budgetary procedures of the programme government. This includes using the national regulatory framework for financial allocations, procurement and accounting systems.[[6]](#footnote-6)

There is a third category of fund management that, *inter alia*, is intended to boost national ownership and reduce transaction costs for national counterparts:

* ***Pooled funds.*** These are sometimes called ‘basket funds’ and are designed to finance expenditures within a sector or a programme through the pooling of financial resources by participating partners.

The term ‘pooled fund’ is used here to differentiate it from sector budget support (which consists of funds within the national account, managed directly by government). *A pooled fund would be contracted out by government to be managed by an agreed party.* Such pooled funds often play the role of an intermediate step, where donors are not able or willing to put money directly into the sector budget support fund of the government, or they view the pooled fund as more results-driven and effective at a given moment in time. A pooled fund would be used to support a sector-wide approach or a thematic programme.

Whether they flow directly into the national budget through sector budget support, or into a pooled fund, the monies contributed are co-mingled with non-UNDP funding sources and are directed towards a common set of results.

## 2.3 Decisions by the Executive Board 2008

The role of the United Nations development system is typically not that of a major financier but one of supporting national capacity development, provision of advisory services and advocacy.[[7]](#footnote-7) With this understanding, UNDP acknowledges that budget support as a way of managing development finance can, so long as it is conceived and administered well, promote development effectiveness. This might include greater national ownership, increased transparency and harmonization in aid allocations, deeper alignment with national plan and budget priorities.[[8]](#footnote-8)

UNDP presented the report “UNDP engagement in direct budget support and pooled funds”[[9]](#footnote-9)to its Executive Board for discussion in June 2008 and a follow up report (“The role of UNDP in the changing aid environment at the country level”[[10]](#footnote-10)) in September 2008. These reports, as endorsed by the Executive Board, state the following:

1. The primary role of UNDP in direct budget support is to support the development of national capacities
2. UNDP will not contribute to general budget support
3. In exceptional cases, UNDP will be able to provide a limited financial contribution to a sector budget support fund and / or pooled fund, in its mandate areas, if so requested by the programme government.[[11]](#footnote-11)
4. A four-year pilot period was endorsed to make operational this decision, effective September 2008.[[12]](#footnote-12)At the end of the pilot period UNDP will present to the Executive Board an evaluation of the pilot[[13]](#footnote-13) and an update on UNDP efforts towards the harmonization of regulations and rules under consideration in the United Nations, including the changes needed to allow participation in pooled funding and sector budget support.

The role and contribution of UNDP during this pilot period in sector budget support and / or pooled funds (hereafter “fund”) will be assessed along one or more of the following five parameters:[[14]](#footnote-14)

* Has UNDP engagement in the fund contributed to a greater policy and advocacy role for UNDP in the given mandate area?
* Has UNDP engagement in the fund contributed to an increased use of country systems, as well as strengthened capacities of the relevant country systems, for example procurement, public financial management and audit?
* Has UNDP engagement in the fund resulted in economies of scale and thus reduced transaction costs for the government and for UNDP, freeing up capacities?
* Has UNDP engagement in this context made a difference in its harmonization and alignment efforts at the country level, and how?
* Has sound monitoring and oversight been effectively administered in the fund, in keeping with the Memorandum of Understanding?

# 3. Terms of UNDP engagement

## What UNDP can and cannot do related to sector budget support and pooled funding under the terms of the Executive Board-approved policy is summarized in the table below:

## Table. What UNDP can and cannot do

| UNDP can: | UNDP cannot: |
| --- | --- |
| * Support a standard project for policy advisory services and capacity development support
 | * Engage in general budget support, which is a general transfer of funds to the national budget to cover a fiscal gap
 |
| * Manage a pooled fund upon request by a government
 | * Make financial contributions to direct budget support, be it a pooled fund or sector budget support fund that is not in its mandate areas
 |
| * Sign on to a sector budget support fund or a pooled fund as a non-fund provider or “signatory without fiduciary obligation”, or becoming a non-signatory with observer status in the respective partnership group
 | * Transfer monies into a pooled fund managed by others than United Nations specialized agency, fund or programme
 |
| * Make a financial contribution to a sector budget support fund managed by a government entity; or to a pooled fund managed by United Nations specialized agency, fund or programme.
 | Engage as a financial contributor to a sector budget support or pooled fund, if the given conditions established by these corporate guidelines are not met |

**3.1 Guiding principles and options**

The principles for UNDP support, whether financed through nationally-executed and nationally-implemented programmes and projects or through sector budget support funds and pooled funds, remain the same. UNDP support must:

* Be based on an official request of the government
* Be within its given mandate areas and part of the agreed UNDP country programme
* Be an integral part of its capacity development support at the country level
* Contribute to strengthening programme country ownership in aid coordination and management
* Contribute to the enhanced performance and accountability of programme countries’ public financial management systems
* Seek to minimize transaction costs incurred by participating countries
* Be delivered in a way that enhances the predictability of resources and reduces their volatility.

## Option 1. Capacity development for sector budget support / pooled funds through a standard UNDP project

Participation in sector budget support and pooled funds is a dimension of UNDP’s overall capacity development support in mandated areas. Standard projects / annual workplans implemented under nationally executed country programme action plans may serve this purpose. The types of national capacities that UNDP seeks to develop would typically include:

1. National policy analysis capacities
2. Negotiating sector-wide approaches: memoranda of understanding, policy matrices, management arrangements
3. Supporting national aid coordination mechanisms, whether inter-ministerial or sector-based
4. National legislative and implementation capacities of anti-corruption and oversight bodies
5. State-citizen review and independent monitoring mechanisms
6. Strengthening national procurement, project and financial management capacities
7. Strengthening national bodies and standards on auditing and results reporting

UNDP support will be carried out in accordance with standard UNDP [Programme and Project Management](http://content.undp.org/go/userguide/results/?lang=en#top) prescriptive content.

## Option 2. Managing a pooled fund upon request by a government

If UNDP is requested by government and other development partners to manage a pooled fund in a transition period, to strengthen national capacities in that given area, this may be done under a framework memorandum of understanding (MoU) for pooled fund and procedures for direct implementation by a UNDP country office,[[15]](#footnote-15) together with adapted UNDP cost-sharing agreements. In this case, resources for pooled funds may originate from:

(a) Government sources, and / or

(b) Donors and other development partners

With regard to cost-sharing funds, the standard UNDP general management fee of seven per cent will apply.

## Option 3. Signing on to a sector budget support fund or a pooled fund as a non-fund provider or becoming non-signatory with observer status

UNDP can support national capacity development in a direct budget support environment by being an integral part of, but not a financial contributor to, the agreement (i.e. a “signatory without fiduciary obligation”).

## Option 4. Financial contribution to a sector budget or pooled fund

This option contains the most stringent terms of implementation.

1. Where it is not possible to become a “signatory without fiduciary obligation”, UNDP may consider carefully the risks of transferring UNDP resources into a sector budget support fund managed by a government entity or a pooled fund managed by a United Nations fund, programme or specialized agency.
2. In addition to the principles stated at the beginning of 3.1 above, the following must be present:
* There is a strategic imperative, whereby the financial contribution can play a catalytic function and strengthen the advocacy, advisory and capacity development role of UNDP in this area;
* There is certain demand for UNDP capacity development support through technical expertise or advocacy, or as trusted facilitator, rather than for our financial assistance alone;
* There is clear indication that only a financial contribution will make it possible for UNDP to participate within the group of participating partners;
* The results management, audit, monitoring and evaluation requirements as agreed to by all the participating parties to the fund, do not contradict the principles and standards of UNDP;
* Adequate capacity exists with the implementing partner to manage the fund; and
* There is credible commitment to national capacity improvements in national systems for management, finance and oversight, where this may be lacking.

### 4. Operational framework for UNDP financial contributions

**Framework MOU for sector support or pooled fund**

(signed by Government and development partners, incl. UNDP)

Government

UNDP

Other development partners

Adapted cost-sharing agreement with UNDP

Adapted cost-sharing agreement with UNDP

UNDP prodoc/ AWP/joint programme doc

UNDP prodoc/ AWP/ joint programme doc

UNDP prodoc/ AWP/joint programme doc

Implementing partner of sector budget (government institution) or pooled fund (United Nations fund, programme, specialized agency, incl. UNDP)

**Government Programme**

###

### The following sub-sections elaborate on the above figure.

### 4.1. Framework memorandum of understanding

Any framework memorandum of understanding for a sector budget support fund or a pooled fund that UNDP is considering becoming engaged in must include agreed roles and responsibilities of development partners, and criteria on joint monitoring and evaluation of contributions in order to minimize separate reviews and evaluations.

Minimum UNDP requirements for a memorandum of understanding (see Annex 4) must be included in the MoU.

### 4.2. Cost-sharing agreements

UNDP arrangements with third-party contributors for the purpose of support of the fund are adapted to take into account the modified reporting, auditing, and monitoring and evaluation arrangements in line with the agreement between UNDP and the fund. A standard template for sector budget support agreements has been developed to specifically support this option (see Annex 4).[[16]](#footnote-16) This agreement will supersede any previous framework agreement or partnership agreement between the donor and UNDP.

### 4.3 Ceilings not to be exceeded

*If resources are allocated from UNDP regular resources:* Annual financial contributions towards sector budget support or pooled funds should not exceed a cap of 10 per cent of the annual authorized spending limit of core funds in the resource planning framework. To go above the standard cap, approval by the Executive Board at the level of the country programme document, as well as approval by the Associate Administrator at the level of the project, would be needed.

*If funds derive from other (“non-core”) resources:* No limit or cap on the volume of funding channeled through UNDP is established. The standard template for sector budget support agreements needs to be used. This agreement will supersede any previous framework agreement or partnership agreement between the donor and UNDP.

### 4.4 Implementing partners

In the case of sector budget support, the implementing partner must be a government entity; and the contribution is subject to the national regulatory framework, including regarding allocation, procurement, audit, and accounting systems provided such national regulation and rules do not contravene the principles of the Financial Regulations and Rules of UNDP.

In the case of a non-UNDP managed pooled fund, UNDP will only contribute if the implementing partner is a United Nations fund, programme or specialized agency. The guidelines for joint programmes will apply in this case.[[17]](#footnote-17) The contribution is subject to the terms of the agreement among the participants to the pooled fund, including with respect to reporting, monitoring, audit and accounting systems.

### 4.5 Programming process

When UNDP considers making a contribution to sector budget support or pooled fund, the following requirements should be met:

1. Procedures for the harmonized approach to cash transfers (HACT) apply as per normal programming procedures.[[18]](#footnote-18) The implementing partner-level financial management capacity assessment (the HACT micro assessment) applies to the selected manager of sector support or pooled fund. See the mandatory appraisal checklist in Annex 1.
2. The potential of making a contribution to a Government sector budget or a pooled fund managed by a United Nations agency should be clearly indicated in the relevant programme documents, such as United Nations development assistance framework (UNDAF); country programme document (CPD); and country programme action plan (CPAP), as appropriate.
3. Country programme document that indicates area(s) for sector budget support and/or United Nations-managed pooled fund should be submitted to headquarters for clearance and internal approval as part of the normal process for Executive Board approval (country offices and regional bureaux are recommended to factor this into their planning).
4. A framework MoU for sector budget support or United Nations-managed pooled funds in this context should be developed with, and approved by, government and other respective development partners. This MoU is to be annexed to the relevant UNDP project document or joint programme document.
5. A signed project document/joint programme document is required for a UNDP contribution to sector budget support or United Nations-managed pooled fund.
6. If a pooled fund is managed by UNDP, the existing UNDP regulations and rules for fund management and cost sharing arrangements, and the standard UNDP project document format, would apply[[19]](#footnote-19)
7. If UNDP contributes financial resources to sector budget support or a pooled fund managed by other UN agency, the following amendments are required in a modified UNDP project document:
* *Cover page:* The “Implementing Partner” would be:
	+ A government entity in case of sector budget support; or
	+ A United Nations fund, programme, specialized agency or UNDP itself[[20]](#footnote-20) in case of pooled fund
* *Results and resources framework and annual work plan (AWP):* This should refer to the outputs, including indicators, baselines and targets of sector budget or pooled fund which are in line with the outcomes specified in UNDP country programme. The activities in the results and resources framework and in the AWP should correspond to the schedule of transfers to the fund
* *Management arrangement.* Based on the MoU, relevant information should be provided on how UNDP will be involved in progress reviews and kept informed of progress
* *Monitoring framework and evaluation*
	+ A monitoring schedule which is in line with the MoU shall be activated in Atlas and updated to track key management events
	+ Assessment should be carried out according to the schedule a*greed in the MoU to record progress* towards the completion of the outputs to which this UNDP project is supposed to contribute
	+ Progress reports and reviews should be undertaken in accordance with the management plan of sector or pooled fund
	+ Rationale and proposed schedule for any specific spot-check, evaluation, audit activities should be specified as appropriate
* *Legal context.* The following text must be included:

 “This project document shall be the instrument referred to as such in Article 1 of the SBAA between the government (*of country*) and UNDP, signed on (*date*)[[21]](#footnote-21)

This project document is in line with the Executive Board decision (2008/24) for enabling UNDP financial contributions to pooled fund and sector budget support, on a case-by-case basis, in response to the request of the government of (*country*) on *(date)* and in accordance with the mandate and roles of UNDP.”

* *Annex:*
	+ Government programme for sector development or pooled fund
	+ Government request
	+ Macro assessment results
	+ Micro assessment results
	+ Authorization by headquarter units
	+ Framework MoU with government and other development partners
	+ Adapted cost-sharing agreement as appropriate

6. Appraisal and approval: Subsequent to normal local appraisal process, the project document is sent to the regional bureau, which will facilitate advanced review, clearance and approval. Regional bureau clearance must factor in advisory inputs from BDP and the Partnership Bureau, and also incorporate formal clearances from BOM (LSO and OFA). Once these advisory inputs and clearances are obtained, the director of the regional bureau clears the submission and forwards the documentation to the Operations Support Group, which then reviews the overall process and compliance with policy, clears and submits to the Associate Administrator with an advisory note recommending the appropriate course of action including approval.[[22]](#footnote-22) Figure 2 below summarizes the necessary procedure. Table 2 explains the role country offices can expect headquarters units to play.

7. Project implementation, monitoring, reporting, evaluation, and audit should be carried out as per standard UNDP procedures, unless otherwise specified in the project document, as well as in its subsequent revisions.

**Figure 2. Procedures for preparation, review, clearance and approval[[23]](#footnote-23)**

**Scenario 1. At the start of a programme cycle**

**Scenario 2. During a programme cycle**

### 4.6 Transferring funds

***Sector budget support funds***

In the case of a contribution to a Government sector budget support fund, contributions are subject to the national regulatory framework. This applies to allocation, procurement, audit, and accounting systems, provided such systems are consistent with the Financial Regulations and Rules of UNDP.

When UNDP contributes funds to Government sector budget, the procedures of national implementation by government apply. Under national implementation, UNDP typically advances cash funds on a quarterly basis to the Government institution, which in turn reports back on expenditure.[[24]](#footnote-24) Note that the recording of expenditures, from requisition through to disbursement, occurs in the books of the implementing partner. UNDP is pre-funding the activities with advances of cash.

Transfers will be recorded in Atlas, charging DBA Advance Account 16006. Such transfers are cleared upon receipt of financial reports from the Implementing partner. As the national implementing partner will report on the commingled sector budget funds, a prorated/apportionment based on the proportion of UNDP contribution to the sector budget will be required before expenditure is recorded. All expenditure is recorded using the new account DBS – expenditure 72950.

Country offices will need to apply judgment where the government has developed equivalent documents, rather than adopting the HACT forms. However, as long as the approach taken is consistent with the principles of UNDP national implementation procedures and harmonized approach to cash transfer, this would not prevent UNDP from contributing to sector budget support fund. In all other respects direct cash transfer requirements under national implementation apply, namely:

* Requests for transfers must be in line with the sector budget plan and signed by authorized government personnel.
* Funds transferred are under the total responsibility of the Government, and UNDP must be assured that they are only used for the activities stated in the annual workplan following UNDP policies and procedures as referred to in the project document.
* Transfers are made in the form of advances for a three-month period or less depending on the needs of the sector project, according to the envisaged activities agreed in the annual workplan, provided that appropriate funds are available to cover the amount requested.
* The approval of a request for an advance to a particular implementing partner is subject to verification by the country office that at least 80 per cent of the previous advance made to that implementing partner and 100 per cent of all earlier advances made to that particular implementing partner have been liquidated. No new advances will be made if existing un-liquidated balances exceed one year.
* The country office must monitor the amounts to be advanced, according to planned activities. Substantive reporting on performance is normally expected on a quarterly basis but consideration should be given to the actual frequency of reporting negotiated by government and other fund partners. If the balance at the end of the period is too high, the country office must implement necessary corrective actions with the appropriate involvement of government and fund partners.
* If the balance of resources advanced to the implementing partner is not enough to incur urgent obligations and expenditures in support of activities agreed in annual workplans, the implementing partner can proceed with such payments with its own funds, and request the country office for reimbursement.
* Advances for sector budget support are made in local currency. The advance should be paid into a Government bank account and held in escrow for that sector budget.
* All expenditures by the government with advances from UNDP must be made in accordance with the procurement and contracting procedures agreed in the project document, and must be related to the project activities and outputs envisaged in the annual workplan. All payments made by the Government with advances must be issued in the name of the recipient.

***Pooled funds***

In the case of a United Nations-managed pooled fund, the contribution is subject to the terms of the agreement among the participants to the United Nations-managed pooled fund, including with respect to its reporting, audit and accounting systems.

When UNDP contributes funds to a United Nations-managed pooled fund, the guidelines for the joint programme managing agent apply. UNDP formulates a project in Atlas with the managing agent as the implementing partner and ensures the project carries the attribution Code JPGPOOL. Transfers to the United Nations managing agent are recorded as advances using the new account DBS Advance Agency 16006 and are cleared upon receipt of financial reports from the managing agent. As the United Nations managing agent pools / commingles funds and reports on a total joint programme basis, a prorated / apportionment based on the proportion of UNDP contribution to the joint programme will be required before expenditure is recorded. All expenditure is recorded using the new account DBS – expenditure 72950.

### 4.7 Financial monitoring

***Sector budget support funds***

In the case of a contribution to a Government sector budget support fund, the contribution is subject to the national regulatory framework, provided such systems are consistent with the Financial Regulations and Rules of UNDP.

There are a number of reports that are utilized to monitor finances under national execution. The combined delivery report is mandatory and should normally be issued quarterly, although the frequency of reporting should also consider harmonized arrangements negotiated by government and its partners participating in a sector budget support fund or pooled fund. The combined delivery report reflects all disbursements made by the project in a certain period. The final combined delivery report must be signed by the authorized official designated by the implementing partner.

If the project uses cash advances, the financial report or funding authorization and certificate of expenditures must also be submitted to the country office, signed by an authorized official from the implementing partner. In the country office, the project officer / finance associate must control the outstanding advances balances in order to monitor the correct implementation of the funds.

As a minimum, the country office should ensure it receives an annual financial breakdown of expenditures modeled on the following expense categories. These categories are consistent with International Public Sector Accounting Standards (IPSAS). Good practice also entails receipt of interim data at the same level of detail.

* Wages, salaries and employee benefits
* Consultants
* Supplies, consumables and equipment
* Grants and transfers
* Other expenses

At the finalization of a project, any unspent balances will be credited back to UNDP general resources.

***Pooled funds***

In the case of a United Nations-managed pooled fund, the contribution is subject to the terms of the agreement among the participants to the pooled fund, including with respect to its monitoring system.

### 4.8 Audit requirements

The auditing requirements as set out in the agreement should not contradict the UNDP Financial Regulations and Rules, policies and procedures.

Projects with financial contributions to a sector budget support fund should follow the audit approach of Harmonized Approach to Cash Transfer.[[25]](#footnote-25) Projects with financial contributions to a pooled fund should be conducted in accordance with the respective United Nations organization’s requirements, as per the guidelines on joint programmes.[[26]](#footnote-26)

### 4.9 Annual reporting

In addition to the standard project progress report, all UNDP country offices implementing this policy are requested to submit to their regional bureau the annual progress and financial review report of the fund to which they are making financial contributions. This must include the results achieved and status of expenditures for any such funds in order to enable UNDP to report to the Executive Board.[[27]](#footnote-27)

To determine the status of expenditure, the country office must extract cumulative income and expenditure, as presented in the latest annual certified financial report from the implementing partner. Dividing total expenditure by total income provides the status of expenditures as a percentage figure. A narrative explanation is required if expenditures for an annual budget cycle do not reach 50 per cent of contributions to the sector budget or pooled fund.

Based on the above, the respective regional bureaux should submit their consolidated report of substantive and financial progress to the following units: to Bureau for Development Policy (Capacity Development Group), Bureau of Management (Office of Finance and Administration) and the Operations Support Group. BDP (CDG) and BoM (OFA) are responsible for synthesizing performance findings for inclusion in the annual report of the Administrator, as well as the annual review of the financial situation.

At the end of the pilot period, results reporting coordinated by OSG will include analysis on this pilot initiative prepared by BDP (CDG) and BoM (OFA). This analysis will be part of overall results reporting submitted to the Executive Board.[[28]](#footnote-28)

**4.10 Extension and augmentation**

Country offices do not need to seek renewal from Headquarters provided that the stipulations under the policy, guidelines and procedures are adhered to. For Option 4 cases, country offices must also be reassured that the government-run sector support budget or the pooled fund continues to fulfill its negotiated objectives.

Additional resources may be attached to an already-approved commitment provided that the aggregate commitment does not exceed the 10 per cent TRAC ceiling stipulated in the policy.

A country office considering either continuation of involvement under Option 4 of the policy or an increase in a pre-approved commitment must inform its regional bureau. The regional bureau is responsible for ensuring that this information is promptly communicated to the Operations Support Group, to BOM (OFA) and to BDP (CDG). This information is essential for accurate annual reporting on the implementation of the policy.

**4.11 Evaluation**

**Sector budget support and pooled fund projects are evaluated in accordance with the principles set out in the UNDP Evaluation Policy of 2006.**

UNDP and the implementing partner, in consultation with other stakeholders, will jointly agree on the purpose, use, timing, financing mechanisms and terms of reference for evaluating a project including an evaluation of its contribution to an outcome, which is captured in the nationally-directed evaluation plan and project agreement / MoU. UNDP shall commission the evaluation to be undertaken by external independent evaluators.

Country offices, in collaboration with the implementing partner and other key stakeholders, are required to prepare a management response within one month after the evaluation report is finalized.

The management response[[29]](#footnote-29) to evaluations should be clear and comprehensive and should address the following dimensions:

* **Key recommendations and / or issues.** Are the recommendations and / or issues relevant and acceptable?
* **Key actions.** What are the concrete proposed actions? Who are the key partners in carrying out the actions?
* **Implementation of the actions.** Who are the responsible units? What is the timeframe for implementation?

In accordance with the UNDP information disclosure policy[[30]](#footnote-30), all evaluations are made available in UNDP’s Evaluation Resource Centre (ERC)[[31]](#footnote-31), which is accessible to the public. After the management response is developed, the implementation of proposed actions is tracked in the ERC. The country office enters the management response in the ERC and updates the implementation status of the follow-up actions. For country offices engaging in sector budget support and pooled funds, the regional bureau monitors and oversees the overall follow-up to the evaluation management response.

To measure the value and effectiveness of UNDP engagement in sector budget support and pooled funding during the pilot period, a comprehensive evaluation involving stakeholders will be undertaken.[[32]](#footnote-32) At the time of writing, arrangements for this exercise are still to be finalized.

**Annex 1. Appraisal checklist, including capacity assessment**

UNDP support towards sector budget support and pooled funds can take the form of a capacity development initiative and policy advisory services through (a) a standard UNDP project; (b) managing a pooled fund upon request by the government; (c) signing on to a sector budget support fund or a pooled fund as non-fund provider or “signatory without fiduciary obligation”, or becoming a non-signatory with observer status in the respective partnership group: or (d) a financial contribution to a sector budget support fund or to a pooled fund. Alternatively, it could be an appropriate combination of these options if so required (DP/2008/53, paragraph 17; DP/2008/36).

This checklist is to be filled out by country offices and then submitted first to the respective Regional Bureau and then the Associate Administrator’s Office for approval. Sector budget support or pooled funds are hereafter referred to as the “fund”.

**Country:**

**Programme:**

**Amount:**

**Government Entity:**

**Submission Date:**

**Expected start date:**

**Approved submission by Resident Representative (signature):**

|  |
| --- |
| **1. Background** |
| Background: | [Replace this text with a brief description of how the sector budgets support and / or pooled fund originated, its goals, framework and partners. Also, describe how the fund uses country systems and contributes to harmonization and alignment at the country level. Please indicate if there is evidence of reduced transaction cost for the host government.] |
| **2. Objectives** |
|  | **Yes** | **No** | **Comments / Risks** |
| Has the Government officially requested UNDP to become engaged in the fund? | [ ]  | [ ]  |  |
| Is the fund in one of the mandate areas of UNDP and in line with the UNDP country programme? | [ ]  | [ ]  |  |
| Is the fund in a sector where UNDP is already participating with a separate project? | [ ]  | [ ]  |  |
| Does the fund reinforce UNDP’s human development advocacy and capacity development roles at the country level? | [ ]  | [ ]  |  |
| In the case of a non-UNDP managed pooled fund, is the implementing partner a United Nations fund, programme or specialized agency? | [ ]  | [ ]  |  |
| Is there a clearly-stated rationale for UNDP to develop national capacities through technical expertise or advocacy, or as trusted facilitator, rather than for financial assistance alone? | [ ]  | [ ]  |  |
| Is there a clear indication that only a financial contribution will make it possible for UNDP to participate? | [ ]  | [ ]  |  |
| If UNDP regular resources are to be used in a sector budget or pooled fund, will the annual commitment remain below 10 per cent of the annual authorized spending limit of core funds in the resource planning framework? | [ ]  | [ ]  |  |
| If funds will come from other (‘non-core’) resources, what percentage of the total does this comprise? | N/a | N/a |  |
| In the case of a fund that is managed by another United Nations entity, are the fiduciary arrangements consistent with the UNDG joint programmes guidelines? | [ ]  | [ ]  |  |
| **3. Risk assessment of the fund framework** |
|  | **Yes** | **No** | **Comments / Risks** |
| Is there a clearly articulated results framework that has been developed inclusively by participating stakeholders? | [ ]  | [ ]  |  |
| Are roles and accountabilities of the government UNDP and donors to the fund clearly set out? | [ ]  | [ ]  |  |
| Is the reporting framework as set out in the agreement in line with the principles of UNDP Financial Regulations and Rules, policies and procedures? | [ ]  | [ ]  |  |
| Does the pooled fund meet minimum UNDP audit standards? | [ ]  | [ ]  |  |
| Does the pooled fund meet minimum UNDP programme and / or project monitoring standards? | [ ]  | [ ]  |  |
| **4. Capacities of implementing partner / responsible government entity and/or country office** |
|  | **Yes** | **No** | **Comments / Risks** |
| Does the implementing partner possess adequate managerial capacities to manage the fund?*The regular checklist for capacity assessment of implementing partners should be used to determine this (see Annex 2)* | [ ]  | [ ]  |  |
| Does the UNDP country office possess robust monitoring and quality assurance capacity to keep abreast of, and fully participate in, the development results monitoring and review process? | [ ]  | [ ]  |  |

**General observations**

[Replace this text with comments, if any]

**Actions for follow up**

|  |  |  |  |
| --- | --- | --- | --- |
| **ID** | **Action Item** | **Assigned To** | **Due By** |
|  |  |  | [mm / dd / yyyy] |
|  |  |  | [mm / dd / yyyy] |
|  |  |  | [mm / dd / yyyy] |

**Comments**

[Replace this text with comments.]

**Approval**

**1) Director Regional Bureau:**\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ **Date:\_\_\_/\_\_\_/\_\_\_\_**

**2) Associate Administrator:** \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ **Date:\_\_\_/\_\_\_/\_\_\_\_**

**Annex 2.** **Checklist for the assessment of implementation capacities**

**Background.** The process of selecting an implementing partner should ensure:

* That the maximum number of appropriate organizations have been considered so that they can be objectively compared;
* That there is an impartial and objective evaluation of prospective candidates; and
* That the candidate Implementing Partner has the technical, financial, managerial, administrative capabilities needed to produce the project outputs.

Purpose. This capacity assessment checklist is intended to be used as a screening tool for the preliminary selection of the best candidate for implementing partner from among several potential partners. The checklist should be used to quickly assess each proposed candidate’s appropriateness and capacity to implement a proposed project. The checklist is also designed to satisfy UNDP Financial Regulation 16.05 on the determination of whose financial procedures would apply if the candidate organization is selected to be the implementing partner. Regulation 16.05 states:

*(a) The administration by… implementing partners of resources obtained from or through UNDP shall be carried out under their respective financial regulations, rules, practices and procedures only to the extent that they do not contravene the principles of the Financial Regulations and Rules of UNDP*

*(b) Where the financial governance of an implementing partner does not provide the required guidance to ensure best value for money, fairness, integrity, transparency, and effective international competition, the principles of UNDP Financial Rules and Regulations shall apply.*

The assessment is therefore designed to assess the principles underlying the candidate organization’s Financial Regulations and Rules.

**Methodology.** Potential Implementing Partners should have been identified during the CPAP preparation or during the process “Project”. The checklist should be used for all implementation modalities. The methodology for conducting this assessment should include interviews with key personnel of the candidate organization and desk study of documents provided by the organization. Sources are listed on the checklist. The assessment checklist reviews capacities in four functional areas: 1) project management; 2) the technical skills and resources; 3) financial management; and 4) administrative skills particularly in the areas of procurement and recruitment.

**Who carries out the assessment?** The country office programme manager and the project formulators are responsible for using this capacity assessment checklist.

**Assessment report.** The assessors will prepare a report of findings and recommendations in regard to the selection of the candidate organization. The report will include recommendations in regard to whose financial procedures will apply if the organization is selected as the implementing partner.

**Use of findings.** The findings of the assessment are project-specific and should not be used to support a conclusion about capacity to implement any other project. The Resident Representative / Country Director, in consultation with Government, will determine the preliminary selection of the implementing partner based on checklist assessments of candidate organizations. The final decision on selection of the implementing partner will be included in the recommendations of the project appraisal committee to the resident representative on the entire project. The resident representative’s approval of the project includes final approval of the implementing partner and related arrangements.

**Follow-up assessments.** After the preliminary selection of the Implementing Partner, the country office will carry out additional assessments, as needed or required, of financial management, procurement and recruitment capacities to identify specific problem areas. Where deficiencies are noted, the assessment reports should recommend inputs and activities for inclusion in project formulation and implementation.

| **AREAS FOR ASSESSMENT** | **ASSESSMENT QUESTIONS** | **REFERENCE DOCUMENTS AND INFORMATION SOURCES** |
| --- | --- | --- |
| **PART I. BACKGROUND INFORMATION** |
| History | Date of establishment of the organization? | Annual Reports, Media Kit, Website |
| Mandate and constituency | What is the current mandate or purpose of the organization? Who is the organization’s primary constituency? | Annual Reports, Media Kit, Website |
| Legal status | What is the organization’s legal status? Has it met the legal requirements for operation in the programme country? | Charter, legal registration  |
| Source of funds | What is the organization’s main source(s) of funds? | Annual reports |
| Certification | Is the organization certified in accordance with any international standards or certification procedure? | ISO, project management standard, other standards |
| United Nations Security Council 1267 | Is the organization listed in any United Nations reference list? | United Nations Security Council 1267, Committee’s list of terrorists and terrorist financiers |
| **PART II. PROJECT MANAGEMENT CAPACITY** |
| **2.1 Management Capacity** |
| Leadership commitment | Are leaders of the organization committed to the implementation of the proposed project? | Interviews |
| Management experience and qualifications | Which managers in the organization would be concerned with the proposed project? What are their credentials and experience that relate to the proposed project? Do these managers have experience implementing donor-funded projects? | CVs of managersInterviews with managersOrganization’s resume |
| Planning and budgeting | Does the organization apply a results-based management methodology? Are there measurable outputs or deliverables in the strategies, programmes and work plans? Are budgets commensurate with intended results?How do planners identify and accommodate risks? | Strategy documentsProject and programme documentsSample proposals, work plans and budgets |
| Supervision, review, and reporting  | How do managers supervise the implementation of work plans? How do they measure progress against targets?How does the organization document its performance, e.g., in annual or periodic reports? How are the organization’s plans and achievements presented to stakeholders? Does the organization hold regular programme or project review meetings? Are such meetings open to all stakeholders? Are the organization’s activities subject to external evaluation? How does the organization learn and adapt from its experience? | Annual reports, presentation to stakeholdersInternal reportsEvaluation reports Lessons-Learned reports |
| Networking | What other organizations are critical for the successful functioning of this organization? How does the organization conduct relations with these organizations? Is the organization a party to knowledge networks, coordinating bodies, and other fora? | Descriptions of network and stakeholder fora |
| **2.2 Technical capacity** |
| Technical knowledge and skills | Do the skills and experience of the organization’s technical professionals match those required for the project? Would these professionals be available to the project?Does the organization have the necessary technical infrastructure (e.g., laboratories, equipment, software, technical data bases, etc.) to support the implementation of the project?How do staff members of the organization keep informed about the latest techniques and trends in their areas of expertise?What external technical contacts and networks does the organization utilize?What professional associations does the organization and / or its professional staff belong to? | CVs of technical staffKnowledge network membershipTechnical library facilitiesReports from participation in international, regional, national or local meetings and conferencesFacilities description |
| **PART III. ADMINISTRATIVE AND FINANCIAL MANAGEMENT CAPACITIES** |
| **3.1 Administrative capacity** |
| Facilities, infrastructure and equipment | Does the organization possess sufficient administrative facilities, infrastructure, equipment and budget to carry out its activities, particularly in relation to the requirements of the project?Can the organization manage and maintain the administrative and technical equipment and infrastructure? | Facilities and equipment available for project requirementsMaintenance personnel and budget |
| Procurement and contracting | Does the organization have the legal authority to enter into contracts and agreements with other organizations? Does the organization have access to legal counsel to ensure that contracts are enforceable, meet performance standards, and protect the interests of the organization and UNDP?Does the organization have a dedicated procurement unit? Do procurement personnel have skills and experience that are appropriate to the requirements of the project? Does the organization have a procurement manual? Is there evidence that the organization conducts procurement on the basis of best value for money, transparency, and effective international competition?Does the organization have a system and procedures for asset management and inventory control? | Procurement manualStandard contractsDocumentation on procurement processes, sample contracts Supplier data baseAudit reportsInterview with legal counselCVs of procurement personnel |
| Recruitment and personnel management  | Does the organization have the legal authority to enter into employment contracts with individuals?Does the organization have a dedicated personnel unit? Do recruitment personnel have skills and experience that are appropriate to the requirements of the project? Does the organization have a recruitment manual?Is there evidence that the organization conducts recruitment objectively on the basis of competition, fairness, and transparency? Does the organization have a salary scale that would apply to project personnel? Would that scale inhibit the hiring of the best candidates? | Recruitment manualStandard contracts and agreementsJob descriptions or terms of referenceDocumentation of recruitment processesRoster files of potential job candidatesCVs of recruitment personnel |
| **3.2 Financial Management Capacity**  |
| Financial management organization and personnel | Does the organization have a dedicated finance unit?Does the organization have a finance manual?Does the organization maintain a bank account? What is the maximum amount of money the organization has ever managed? Do finance managers and personnel have skills and experience that are appropriate to the requirements of the project? Do finance personnel have experience managing donor resources? Are finance personnel familiar with UNDP financial management requirements? Are any finance personnel familiar with Atlas through External Access? | CVs of financial personnelA bank account or bank statementsInterviews with financial management staffFinance manual |
| Internal control | Does the organization have established procedures on authority and responsibility for receipt, handling and custody of funds and for expenditures, accounting and reporting? Are there written procedures for segregation of duties? How does the organization ensure physical security of advances, cash and records? How does the organization ensure that expenditures conform to their intended uses? Is there any evidence of non-compliance with any relevant rules and procedures? | Finance manual or written financial management procedures |
| Accounting and financial reporting | Are accounts established and maintained in accordance with national standards or requirements?When and to whom does the organization provide its financial statements?Is there any evidence of deficiency in accounting or financial reporting? | Description of accounting system and reporting arrangementsFinancial reports |
| Efficiency | What is the average time for processing a financial transaction? What is the average date of submission of regular financial reports? | Various |
| Audit | Is the organization regularly audited? Are audit findings public? If so, have the organization’s financial audits produced any significant recommendations for strengthening of financial systems and procedures? Have audits identified instances non-compliance with rules and procedures or misuse of financial resources? What has been done to carry out audit recommendations? | Audit reportsAudit follow up reports |

**Annex 3. The roles of headquarters units**

| **HQ unit** | **Role** | **Stage of involvement** |
| --- | --- | --- |
| Regional Bureau (RB) | Main focal point for country officeMobilizes relevant HQ units to review, advise and / or clear submissionsClears submission after receipt of required clearances from BOM (LSO and OFA)Forwards cleared submissions to OSG for consideration by the Associate Administrator | Available to work with the country office throughout engagement with policy until final clearance by the regional bureau director and submission to OSG |
| Bureau for Development Policy (Capacity Development Group) | Based on RB request, advises country offices considering engagement in sector budget support or pooled fundsCollects and disseminates good practices and lessonsProvides results summary for annual report of the Administrator on the implementation of the policyEngages with UNDG to ensure inter-agency synergy and common approachesFacilitates cross-country learningManages guidelines as part of programming policies | Available to advise on policy options from the earliest stage of consideration up to the final submission of a request by country office to regional bureau |
| Partnership Bureau (Division for Resource Mobilization) | Through RB, advises country offices on cost sharing agreements and memoranda of understanding | Available to advise on agreements and MoUs from the earliest stage of consideration up to the final submission of a request by a country office to RB |
| Bureau of Management (Legal Support Office) | Through RB, ensures compliance of submissions with the UNDP legal frameworkClears submissions that are deemed consistent with the legal framework (as part of the regional bureau-led process) | Engaged by RB when a submission is received from a country officeMay be requested by RB to provide clarification on legal issues earlier in formulation process, if required |
| Bureau of Management (Office of Finance) | Through RB, ensures compliance of submissions with Financial Regulations and RulesClears submissions that are deemed consistent with the Financial Regulations and Rules (as part of the regional bureau-led process) | Engaged by RB when a submission is received from a country officeMay be requested by the regional bureau to provide clarification on application of Financial Regulations and Rules earlier in formulation process, if required |
| Executive Office (Operations Support Group) | Periodically clarifies and refines procedures required to improve oversight and clearance of casesSupports efforts of RB to facilitate headquarter mobilization if requiredReviews process compliance of submissions in accordance with the Policy and related programme and operations policies and proceduresAdvises the Associate Administrator on any aspect of a submission and recommends the course of actionInitiates follow up based on requests for further clarification, if any, from the Associate Administrator | Engaged by RB when a submission is received from a country officeMay be requested by RB to facilitate headquarter engagement, if required |

**Annex 4. Minimum requirements for a Framework Memorandum of Understanding**

*Where UNDP manages a pooled fund or where UNDP provides funding to the sector budget support managed by the national implementing partner*

Where UNDP manages a pooled fund, subject to adherence to all items in the checklist attached: (DEX project/cost sharing):

1. The preamble should include: “Whereas the Government and partners supporting this Sector Budget Support arrangement have decided that UNDP should manage the pooled fund for receipt on contributions in support of the Sector Budget Support, as set forth further herein, and UNDP has agreed to do so”.
2. In the main text: (i) “UNDP shall manage the pooled fund for receipt of contributions in support of the Sector Budget Support, on the basis of a UNDP project document agreed with the Government, in accordance with the UN Development Group guidance on pooled funds and applicable UNDP regulations, rules, policies and procedures.” (ii) “UNDP shall receive third party donor contributions on the basis of UNDP standard contribution agreements”; (iii) “The results framework, management arrangements, reporting and audit requirements shall be set out in the project document, and shall be consistent with UNDP’s financial regulations, rules, policies and procedures”. (iv) “The activities under the pooled fund shall be monitored and evaluated in accordance with UNDP regulations, rules, policies and procedures. UNDP, the Government, and other stakeholders will jointly agree on the purpose, use, timing, financing mechanisms and terms of reference for evaluating project activities under the pooled fund, including an evaluation of its contribution to an outcome which is listed in the Evaluation Plan. UNDP shall commission the evaluation, and the evaluation exercise shall be carried out by external independent evaluators”.

Where UNDP contributes to sector budget support, subject to adherence to all items in the checklist attached:

In the main text: (i) “It is understood that UNDP’s contribution to the sector budget support will be provided on the basis of a UNDP project document with the Government, in line with this Agreement/MoU and applicable UNDP regulations, rules, policies and procedures. In particular, the project document shall specify the modified results framework, reporting, and auditing, as well as monitoring and evaluation requirements”; (ii) “Third party donor contributions to UNDP in support of a contribution to a sector budget support fund shall be effected on the basis of adapted contribution agreements, consistent with the nature of the sector budget support”; (iii) “The activities under the sector budget support fund shall be monitored and evaluated jointly by the Government and other stakeholders, on the basis of agreed terms of reference reflecting the purpose, use, timing, financing mechanisms, including an evaluation of the contribution of the sector budget support to the outcomes listed in the results framework”. (iv) “UNDP, in collaboration with other United Nations agencies and in consultation with the coordinating Ministry, will establish an annual audit plan, Where an assessment of the Public Financial Management system has confirmed that the capacity of the Supreme Audit Institution is high and it is willing and able to conduct scheduled and special audits, the Supreme Audit Institution may undertake the audits of government Implementing Partners. If the SAI chooses not to undertake the audits of specific Implementing Partners or where no assessment of the Public Financial Management Capacity has been conducted, or such an assessment identified weaknesses in the capacity of the Supreme Audit Institution, UNDP will commission the audits to be undertaken by private sector audit services. The Assessments and audits of non-government Implementing Partners will be conducted in accordance with the policies and procedures of UNDP.”; (v) “The implementing partner shall carry out all procurement on the basis of a transparent, competitive process, ensuring value for money.”; (vi) “The implementing partner shall provide annual narrative and financial reports to the signatories to the direct budget support agreement, reflecting all funds received, expenditures, balances remaining. The financial report shall be certified by the Chief Financial Officer of UNDP.

**Annex 5. Standard template for sector budget support agreements**

**SECTOR BUDGET SUPPORT CONTRIBUTION AGREEMENT**

**BETWEEN THE [DONOR] (THE DONOR) AND**

**THE UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP)**

WHEREAS the Donor hereby agrees to contribute funds to UNDP for a sector budget support facility for the implementation of [project title] in [programme country],[[33]](#footnote-33)

WHEREAS UNDP is prepared to receive and transfer the contribution to the sector budget support facility Manager (hereinafter “national implementing partner”) for the implementation of the programme / project,

WHEREAS the Government of [programme country] has been duly informed of the contribution of the Donor to the programme / project,

WHEREAS the national [\_\_\_\_\_\_\_\_\_\_\_\_] serves as the national implementation partner for the implementation of the programme / project,

WHEREAS this Agreement supersedes any previous framework agreement or partnership agreement between the Donor and UNDP,

NOW THEREFORE, UNDP and the Donor hereby agree as follows:

**Article I. The Contribution**

1(a) The Donor shall, in accordance with the schedule of payments set out below, contribute to UNDP the amount of (amount in dollars).The contribution shall be deposited in the [bank and bank account].

Schedule of payments[[34]](#footnote-34) Amount

 [due date] [specify amount]

(b) The Donor will inform UNDP when the contribution is paid via an e-mail message with remittance information to:contributions@undp.org

**[The following paragraph should be included only in the event that the contribution is not in US dollars]**

The value of the payment, if made in a currency other than United States dollars, shall be determined by applying the United Nations operational rate of exchange in effect on the date of payment. Should there be a change in the United Nations operational rate of exchange prior to the full utilization by the UNDP of the payment, the value of the balance of funds still held at that time will be adjusted accordingly. If, in such a case, a loss in the value of the balance of funds is recorded, UNDP shall inform the Donor with a view to determining whether any further financing could be provided by the Donor. Should such further financing not be available, the assistance to be provided to the programme / project may be reduced, suspended or terminated by UNDP.

3. The above schedule of payments takes into account the requirement that the payments shall be made in advance of the execution / implementation of planned activities. It may be amended to be consistent with the progress of programme / project delivery.

4. UNDP shall receive and transfer the payment to the sector budget support facility in accordance with the regulations, rules and policies of UNDP relating to the sector budget support and the direct budget support agreement, provided however that the principles of the direct budget support agreement are consistent with UNDP regulations, rules and policies.

5. All financial accounts and statements shall be expressed in United States dollars.

**Article II. Utilization of the Contribution**

1. The implementation of the responsibilities of UNDP and of the Implementing Partner pursuant to this Agreement and the project document shall be dependent on receipt by UNDP of the contribution in accordance with the schedule of payment as set out in Article I, paragraph 1, above.

2. If unforeseen increases in expenditures or commitments are expected or realized (whether owing to inflationary factors, fluctuation in exchange rates or unforeseen contingencies), UNDP shall submit to the Donor on a timely basis a supplementary estimate showing the further financing that will be necessary. The Donor shall use its best endeavours to obtain the additional funds required.

3. If the payments referred to in Article I, paragraph 1, above are not received in accordance with the payment schedule, or if the additional financing required in accordance with paragraph 2 above is not forthcoming from the Donor or other sources, the assistance to be provided to the programme / project under this Agreement may be reduced, suspended or terminated by UNDP.

4. Any interest income attributable to the contribution shall be credited to UNDP Account and shall be utilized in accordance with established UNDP procedures.

**Article III. Reporting**

1. Programme / project management and expenditures shall be governed by the regulatory framework of the sector budget support facility provided these regulations, rules, policies and procedures are consistent the regulations, rules and policies of UNDP

2. UNDP headquarters and country office shall provide to the Donor the following reports prepared in accordance with accounting and reporting procedures of the sector budget support facility.

3. UNDP Bureau of Management / Office of Finance and Administration shall provide a consolidated financial report to the Donor on a quarterly basis; and

4. UNDP country office shall provide an annual status report of programme / project progress for the duration of the Agreement.

1. From the country office (or relevant unit at headquarters in the case of regional and global projects) an annual status report of programme / project progress for the duration of the Agreement, as well as the latest available approved budget.
2. From UNDP Bureau of Management / Office of Finance and Administration, an annual certified financial statement as of 31 December every year to be submitted no later than 30 June of the following year.
3. From the country office (or relevant unit at headquarters in the case of regional and global projects) within six months after the date of completion or termination of the Agreement, a final report summarizing programme / project activities and impact of activities as well as provisional financial data.
4. From UNDP Bureau of Management / Office of Finance and Administration, on completion of the programme / project, a certified financial statement to be submitted no later than 30 June of the year following the financial closing of the project.

**Article IV. Administrative and support services**

1. In accordance with the decisions and directives of UNDP's Executive Board reflected in its Policy on Cost Recovery from Other Resources, the Contribution shall be subject to cost recovery for indirect costs incurred by UNDP headquarters and country office structures in providing General Management Support (GMS) services. To cover these GMS costs, the contribution shall be charged a fee equal to seven per cent. Furthermore, as long as they are unequivocally linked to the specific project(s), all direct costs of implementation, including the costs of executing entity or implementing partner, will be identified in the project budget against a relevant budget line and borne by the project accordingly.

2. The aggregate of the amounts budgeted for the programme / project, together with the estimated costs of reimbursement of related support services, shall not exceed the total resources available to the programme / project under this Agreement as well as funds which may be available to the programme / project for programme/project costs and for support costs under other sources of financing.

**Article V. Evaluation**

All programmes and projects are evaluated in accordance with the SBS Facility Evaluation Policies as long as they do not contradict the principles set out in UNDP’s Evaluation Guidelines. UNDP and the implementing partner in consultation with other stakeholders will jointly agree on the purpose, use, timing, financing mechanisms and terms of reference for evaluating a project including an evaluation of its contribution to an outcome, which is listed in the Evaluation Plan. The Implementing partner shall commission the evaluation, and the evaluation exercise shall be carried out by external independent evaluators.

**Article VI. Equipment**

Ownership of equipment, supplies and other properties financed from the contribution shall vest in the Implementing partner. Matters relating to the transfer of ownership by UNDP shall be determined in accordance with the relevant policies and procedures of the Implementing partner.

# Article VII. Auditing

The contribution shall be subject to the auditing procedures provided for in the sector budget support agreement with the Government and all stakeholders to the SBS Facility, as long as those procedures do not contradict the principles of UNDP Financial Regulations and Rules, and policies and procedures. Should the biennial Audit Report of the Board of Auditors of UNDP to its governing body contain observations relevant to the contribution, such information shall be made available to the Donor.

# Article VIII. Completion of the Agreement

1. UNDP shall notify the Donor when all activities relating to the programme / project have been completed.

2. Notwithstanding the completion of the programme / project, UNDP shall continue to hold unutilized payments until all commitments and liabilities incurred in the execution / implementation of the programme / project have been satisfied and programme / project activities brought to an orderly conclusion.

3. If the unutilized payments prove insufficient to meet such commitments and liabilities, UNDP shall notify the Donor and consult with the Donor on the manner in which such commitments and liabilities may be satisfied

# Article IX. Termination of the Agreement

1. After consultations have taken place between the Donor, UNDP and the programme country Government, and provided that the payments already received are, together with other funds available to the programme / project, sufficient to meet all commitments and liabilities incurred in the execution / implementation of the programme / project, this Agreement may be terminated by UNDP or by the Donor. The Agreement shall cease to be in force 30 (thirty) days after either of the Parties have given notice in writing to the other Party of its decision to terminate the Agreement.

2. Notwithstanding termination of all or part of this Agreement, UNDP shall continue to hold unutilized payments until all commitments and liabilities incurred in the execution / implementation of all or the part of the project, for which this Agreement has been terminated, have been satisfied and project activities brought to an orderly conclusion.

# Article X. Amendment of the Agreement

The Agreement may be amended through an exchange of letters between the Donor and UNDP. The letters exchanged to this effect shall become an integral part of the Agreement.

**Article XI. Entry Into Force**

This Agreement shall enter into force upon signature and deposit by the Donor of the first contribution-payment to be made in accordance with the schedule of payments set out in Article I, paragraph 1 of this Agreement and the signature of the project document by the concerned parties.

IN WITNESS WHEREOF, the undersigned, being duly authorized thereto, have signed the present Agreement in the English language in two copies.

For the Donor: For the United Nations Development Programme:

(Name) (Name)

(Title) (Title)

(Date) (Date)

**Annex 6. Routing slip for Headquarters**

Regional Bureau: [INSERT REGIONAL BUREAU]

Country office: [INSERT COUNTRY]

*N.B In order to be ready for approval, the terms and conditions in the operational guidance and procedures must be followed to the satisfaction of the units listed in this routing slip. The signatures of HQ units 1, 2 and 3 must be obtained by the regional bureau before the file is submitted to the Operations Support Group. This routing slip features the offices whose signatures are required as indication that they have been consulted and/or have cleared the submission. Regional bureaux are advised to approach these offices early on in the process to engage them for their feedback. There is no prescribed sequence for this and the timing and content of interaction with the central bureaux should be determined on a case-by-case basis.*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Signatory | Input required | Input obtained? | Comments(if any) | Signature | Date |
| **Yes** | **No** |
| 1. Director, CDG/BDP
 | **Consulted** | [ ]  | [ ]  |  |  |  |
| 1. Director,

OFA/BoM | **Cleared** | [ ]  | [ ]  |  |  |  |
| 1. Director,

LSO/BoM | **Cleared** | [ ]  | [ ]  |  |  |  |
| 1. Director,

Regional Bureau | **Cleared** | [ ]  | [ ]  |  |  |  |
| 1. Director,

OSG/ExO | **Cleared** | [ ]  | [ ]  |  |  |  |

**Annex 7. Frequent Asked Questions**

1. ***My country office is in the middle of the CPAP process. The Government has approached us to contribute to a pooled fund in an area where we are already present with a stand-alone project. What can we do?***

Assuming that the government request falls within the thematic or sectoral priorities set out in the CPAP, there are two options: (i) to revise an existing project document to include the new component; or (ii) to create a new project document for that contribution. The revised project document or the new one should be appraised in an LPAC chaired by UNDP before full documentation is submitted HQ for review, clearances and approval. It is advisable to consult, through your regional bureau, with CDG / BDP, DRM / PB and BOM (LSO and OFA) early on in the process if you have any queries about the policy and its legal, financial, and agreement-related components.

1. ***How do I proceed when a government requests UNDP to contribute to sector budget support or a pooled fund in an area that is in line with the results and resources framework of the CPAP?***

The CPAP should be reviewed with the government and necessary amendments should be made as appropriate, typically during an annual review.

1. ***Can UNDP make a financial contribution to a general budget support fund?***

No. UNDP can only provide a limited financial contribution to a sector budget support and / or pooled fund, but not to general budget support

1. ***Can UNDP contribute to a pooled fund that is managed by a non-UN agency?***

No. UNDP will not transfer monies into a pooled fund not managed by a United Nations fund, programme, or specialized agency

1. ***The policy runs for four years. What do we do if the government requests the country office to make a contribution to a sector development programme that extends beyond 2012?***

The country office should limit its contribution within the pilot period of four years. However, UNDP should be kept informed by the government on the programme progress over the whole period of six years.

1. ***Can we use the existing assessment results undertaken by other agencies?***

Yes, provided that these results can satisfy all questions of our capacity assessment checklist. Otherwise additional assessments would be needed.

1. ***Can a project that is related to a UNDP contribution be approved locally like other UNDP projects?***

No. During the pilot period all projects that represent UNDP involvement in sector budget support or pooled funds must be submitted to HQ for approval.

1. ***Are there any caps for UNDP contribution to sector budget support and pooled funds?***

Yes: if funds come from UNDP regular resources, annual financial contributions towards sector budget support or pooled funds should not exceed 10 per cent of the annual authorized spending limit of core funds in the resource planning framework. To go above the standard cap, approval by the Executive Board at the level of the project, is needed.

No, if funds come from other (“non-core”) resources, there is no limit or cap on the volume of funding channeled through UNDP. The standard template for sector budget support agreements needs to be used. This agreement will supersede any previous framework agreement or partnership agreement between the donor and UNDP.

1. ***In case of UNDP contribution to a sector budget support or pooled fund, can the standard UNDP project document format still apply?***

Yes. The standard UNDP project document format with some amendments as specified in 4.5.5.b of the operational guidance

1. ***What documents should be submitted to headquarters as part of a request to participate in implementing this policy?***

The following documents should be included.

1. A cover letter summarizing the situation and justification for UNDP contribution
2. An official government request
3. A copy of the government programme for sector development or pooled fund
4. Draft framework MoU, if applicable
5. Draft adapted cost-sharing agreement, if applicable
6. Draft project document which has been ‘LPACed’
7. Results of the systems-level financial management capacity assessment (the HACT macro assessment)
8. Results of the financial management capacity assessment of the implementing partner (the HACT micro assessment)
9. Minutes of LPAC meeting signed by the Resident Representative

Items d, e and f can only be submitted in draft form and are typically signed after headquarter clearances have been obtained and a submission has been approved by the Associate Administrator.

Please note that failure to provide all of the documentation detailed above will result in delay or even non-approval of a submission.

1. ***What are additional requirements in terms of reporting and audit?***

In addition to the standard project progress reporting requirements, all UNDP country offices are requested to submit to the respective Regional Bureau the annual progress and financial review report of the fund they are financially contributing to. This must include the results achieved and status of expenditures for any such funds in order to enable UNDP to report to the Executive Board according to the Decision 2008/29.

The audit of all projects with financial contributions to a sector budget support fund need to apply the same audit arrangements and policies applicable to the Harmonized Approach to Cash Transfers (HACT). The audit of projects with financial contributions to a pooled fund will follow the audit policies of the concerned participating UN organization.

1. ***My country office could become part of the fund arrangement to support capacity development without financial contribution to the fund itself. Do I need approval to proceed? If yes, from whom? Do I need to fill in the appraisal checklist?***

No. Being a “signatory without fiduciary obligation” is a preferred option for UNDP. Headquarter clearance is only required for the budget support fund or pooled fund agreement. Clearance needs to be first obtained from the Regional Bureau and then from the Associate Administrator. There is no need to fill out the appraisal checklist, which is required only in the case of financial contributions. The checklist might nevertheless serve as valuable background tool, and we would encourage you to review it.

1. ***The government has requested UNDP support to strengthen its capacities to manage a sector budget support fund / pooled fund. Where can I get advice internally?***

You can contact the Capacity Development Group at the Bureau for Development Policy. If you have UNDP intranet access, more information is available at: <http://content.undp.org/go/practices/poverty/aid-coordination/?src=pov>. Alternatively, go to:[www.aideffectiveness.org](http://www.aideffectiveness.org/).

1. ***The government is receiving general budget support. It has turned to UNDP for capacity development support to manage and coordinate the process. There will be no financial contribution. Can the country office engage? And if yes, how?***

UNDP cannot under any circumstances make financial contributions to general budget support, which is a general transfer of funds to the national budget to cover a fiscal gap. However, UNDP can engage in capacity development for managing and coordinating the process through a standard UNDP project.

1. ***A sector budget support fund has been in place for some time and a negotiated framework MoU is in place. UNDP has been requested to join this fund. Since UNDP has not been involved in the negotiations around the MoU, how do I proceed?***

You need to review the MoU and check it against the minimum requirements outlined in the minimum clauses for UNDP (see Annex 3). If the MoU is in accordance with the minimum clauses, you can proceed to the approval stage annexing the original MoU to the relevant UNDP project document. If the requirements spelled out in the clauses are *not* addressed adequately in the MoU, then it is necessary to negotiate additional clauses into the MoU and/or amend respective clauses together with the government and other partners involved. The revised MoU needs to be annexed to the relevant UNDP project document in submission for headquarter clearances and approval by the Associate Administrator.

1. Decision 2008/18 regarding report “UNDP engagement in direct budget support and pooled funds” (DP/2008/36), decision 2008/36 regarding supplementary report “The role of UNDP in the changing aid environment at the country level” (DP/2008/53). [↑](#footnote-ref-1)
2. See UNDG papers “The role of the United Nations system in a changing aid environment: sector support and sector programmes” (2005), “The role of the United Nations in the changing aid environment” (2008). [↑](#footnote-ref-2)
3. OECD/DAC estimates suggest that direct budget support might entail up to one third of total aid flows in the near future. Yet little hard data has been published to date on direct budget support, so a real-time aggregate picture of aid flows through direct budget support is as yet unavailable. [↑](#footnote-ref-3)
4. See UNDG “Position Statement on Capacity Development” (December 2006) and the “UNDG Capacity Assessment Methodology User Guide” (May 2008). [↑](#footnote-ref-4)
5. See: [http://www.oecd.org/document/18/0,2340,en\_2649\_3236398\_35401554\_1\_1\_1\_1,00.html](http://www.oecd.org/document/18/0%2C2340%2Cen_2649_3236398_35401554_1_1_1_1%2C00.html) or [www.accrahlf.net](http://www.accrahlf.net) [↑](#footnote-ref-5)
6. See also “Harmonizing Donor Practices for Effective Aid Delivery: Budget Support, Sector-Wide Approaches and Capacity Development in Public Financial Management”, OECD, 2005. [↑](#footnote-ref-6)
7. There are of course exceptions, such as when a United Nations agency provides seed funding and technical support for a turnkey initiative on the premise that success will attract additional resources from different sources. [↑](#footnote-ref-7)
8. This position is supported by Triennial Comprehensive Policy Review resolution A/RES/62/208 of 2004 which asks the United Nations system to, “support national capacities for the management of various aid modalities, including system-wide approaches and budget support”. The 2007 resolution takes this one step further and “[e]ncourages that the United Nations development system be invited to participate, *ex officio*, in current and new aid modalities and coordination mechanism at the request of the programme country […]” It is also bolstered by Growing demand from programme country governments for UNDP to engage in direct budget support fora which in some countries have become an integral part of the national policy dialogue and consultation processes on development effectiveness and aid coordination. [↑](#footnote-ref-8)
9. DP/2008/36 [↑](#footnote-ref-9)
10. DP/2008/53 [↑](#footnote-ref-10)
11. UNDP Financial Regulations and Rules did not previously allow for financial contributions to direct budget support and pooled funds. In its June 2008 session, the Executive Board endorsed the necessary amendments of the financial regulations to enable financial contributions to sector budget support and pooled funds. In addition to including definitions for direct budget support, sector budget support and pooled funds, Regulation 18.05 was amended to allow for reporting on co-mingled funds and Regulation 16.04 to allow for fund-level auditing in accordance with the agreement of the participants to the fund. [↑](#footnote-ref-11)
12. Executive Board Decision 2008/29. [↑](#footnote-ref-12)
13. Based on criteria outlined in DP/2008/36 and DP/2008/53 [↑](#footnote-ref-13)
14. Refer to DP/2008/53 para 28 for important additional information, specifically on the indicators to be used to monitor and evaluate performance. [↑](#footnote-ref-14)
15. <http://content.undp.org/go/userguide/results-management/project/justifying-a-project.en> [↑](#footnote-ref-15)
16. More advice on what to do if a donor has expressed interest in channeling money through UNDP to a sector budget support or a pooled fund can be sought by writing to: cosupport@undp.org. [↑](#footnote-ref-16)
17. See: <http://www.undg.org/index.cfm?P=237> [↑](#footnote-ref-17)
18. See [Framework for Cash Transfers to Implementing Partners](http://www.undg.org/archive_docs/7110-Framework_for_Cash_Transfers_to_Implementing_Partners.doc). [↑](#footnote-ref-18)
19. For project document formats for both CPAP and non-CPAP environments, go to: http://content.undp.org/go/prescriptive/Project-Management---Prescriptive-Content-Documents/download/?d\_id=1360364& [↑](#footnote-ref-19)
20. Subject to the selected manager, the project implementation modality could be United Nations agency implementation or direct implementation by UNDP. [↑](#footnote-ref-20)
21. If the country has not signed the SBAA, this sentence should read: “This project document should be the instrument envisaged in the Supplemental Provisions to the Project Document, attached hereto.” [↑](#footnote-ref-21)
22. Please note that this process makes a clear distinction between the clearance functions of the regional bureaux, BOM and OSG on the one hand, and the advisory inputs of BDP and Partnership Bureau on the other. While both blocks of engagement are necessary, unanimous clearances are required to clear the way for the Associate Administrator to contemplate approval, while advisory inputs are provided for informed consideration and are not decisive factors in the approval of submissions. [↑](#footnote-ref-22)
23. See Annex 2 for more information on the roles of different headquarter units. [↑](#footnote-ref-23)
24. Financial reporting should typically be equivalent to the schedule for fund transfer and in accordance with the harmonized approach to cash transfer. Exceptions to this standard approach might be considered, such as when a government and sector budget support partners agree to a different schedule of fund transfer and reporting. In such cases, UNDP may exceptionally harmonize its practices to the prevailing practice. [↑](#footnote-ref-24)
25. See the [Framework for Cash Transfers to Implementing Partners](http://www.undg.org/archive_docs/7110-Framework_for_Cash_Transfers_to_Implementing_Partners.doc). [↑](#footnote-ref-25)
26. See: <http://www.undg.org/index.cfm?P=237> [↑](#footnote-ref-26)
27. In accordance with decision 2008/29. [↑](#footnote-ref-27)
28. In order to minimize additional reporting burdens, results reporting on sector budget support and pooled funds should be harmonized within existing results reporting arrangements. Further work is required to clarify and strengthen the complementarity between self-reporting, evaluations commissioned by country offices, and the comprehensive independent evaluation envisaged at the end of the pilot phase. [↑](#footnote-ref-28)
29. If you have UNDP intranet access, you can download the template at: <http://stone.undp.org/undpweb/eo/evalnet/erc/documents/mgt_response_independent_evaluations.doc> [↑](#footnote-ref-29)
30. See: <http://www.undp.org/idp/> [↑](#footnote-ref-30)
31. http://erc.undp.org/ [↑](#footnote-ref-31)
32. As specified in Executive Board decision of DP/2008/53. [↑](#footnote-ref-32)
33. The programme/project is described in the project document [project no. and title]. The project document is formally annexed to this Agreement. For UNDP programme activities carried out under the harmonized operational modalities, the project document is comprised of the CPAP and annual work plans. [↑](#footnote-ref-33)
34. It is recommended that country offices negotiate the number of installments to ensure at least six months’ anticipated disbursements are funded with each installment. This will make processing of contributions and reporting more efficient for the country offices. [↑](#footnote-ref-34)