

# Chapter 2

## National Capacity for Development Effectiveness

The 2006 UNDG Position Statement, “Enhancing the UN’s Contribution to National Capacity Development,” challenges UNCTs to articulate capacity development and its underlying principles as the central thrust of the UN’s role in the country. While crucial to achieving development goals, national capacity is also an enabling factor to make aid more effective and therefore an integral element of the 2005 Paris Declaration. True national ownership, leadership of aid coordination, and use of national systems by development partners all depend on national capacity. This chapter provides an overview of how UNCTs have increased their efforts in support of national capacity development and have enhanced aid effectiveness in line with the Paris Declaration on Aid Effectiveness. The chapter also provides an update on the implementation of the Harmonized Approach to Cash Transfer (HACT), a tool for UNCTs focused on capacity development and enhancing aid effectiveness.





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## CD Position Statements

In October 2006 the UNDG produced a position statement on capacity development to guide UN country teams in mainstreaming capacity development and strategically position the UN system to support national capacity development efforts. The position statement underlines the centrality of capacity development to the activities of the UN in supporting national priorities, and identifies four key entry points to render UNCT work more effective in terms of country level capacity development: (1) articulating capacity development as the central thrust of the UN's country level activities; (2) situating this work within national policy and development plans; (3) drawing on or feeding into national or sector capacity assessments and capacity development strategies; and (4) 'unpacking' capacity development into tangible components that, addressed together, provide the necessary capacities to reach development goals in the context of a rights-based approach.

The capacity components are: human resources; public sector accountability; access to information, development knowledge, and technology; inclusion, participation, equity, and empowerment; financial resources; material resources; environmental resources; and external/international relations. Each of these components are seen as critical and cross-cutting dimensions of capacity development, relevant to different sectors and the UNCT as a whole.

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## Capacity Assessment

**Bulgaria:** The UN worked on capacity assessment reports on municipalities and district administrations, businesses, and NGOs. Public discussions were held on the capacities of the local development actors to work with the EU Structural Funds and the Cohesion Fund.

**Nigeria:** UNDP and UNICEF strengthened the capacity of three key national institutions on poverty tracking and conducted assessments with seven states. Following the UN system lead – in cooperation with the UK Department of International Development (DfID), the European Commission (EC), and the World Bank – support was given to the government to undertake an exercise aimed at assessing the capacity of the 36 states and Federal Capital Territory to deliver effective programmes based on four benchmarks:

- (1) transparency and accountability;
- (2) budget and fiscal management;
- (3) service delivery; and (4) policy.

The National Planning Commission has taken full ownership of the process and continues to undertake assessments, with states becoming more enthusiastic about participation.

**Turkey:** Assisted by a mission team, the UN in Turkey completed an assessment of the national capacity on monitoring and evaluation.

## Capacity Development

### *Introduction*

The principles and practical approach enshrined in the UNDG Position Statement have been incorporated into the revised CCA/UNDAF guidelines of February 2007. The guidance on capacity development indicates that UNCTs should apply capacity development and its underlying principles as the central thrust of the UNDG's role in a country. In turn, the vital role of capacity development is captured in the CCA or other analytic work and the UNDAF. UNCTs are expected to ensure a collective approach towards capacity development, maximizing the strengths and comparative advantages of both resident and non-resident UN agencies. While UNCTs are increasingly reporting activities in the field of capacity assessment and capacity building, a more systematic and comprehensive approach that draws on the complementary strengths of UNCT members is only slowly starting to emerge.

### *Capacity assessments*

Existing policies already require UNCTs to review national and institutional financial management capacities during the CCA and UNDAF exercise. This is being achieved through micro and macro-assessment under the Harmonized Approach to Cash Transfers (see HACT, left). In addition, the Position Statement developed in October 2006 suggests that capacity assessments must be broadened beyond the public financial management systems.

According to the CCA/UNDAF guidelines, the UNCTs are required to focus analytical work on identifying the root causes of key development problems. UNCTs now must also focus on the

capacity gaps that prevent effective action to redress such problems. Capacity development and a rights-based approach must go hand-in-hand in this analytic work. The findings from the analytic work should translate into UNDAF outcomes aimed at enhancing capacities from a rights-based perspective.

Although capacity figures prominently in CCAs developed in 2006, few UNCTs reported systematic work on capacity assessments. While the Togo UNCT did not undertake a CCA, the team decided to do a separate capacity assessment in preparation of their UNDAF. The assessment was followed by the ongoing elaboration of a programme to strengthen national capacities. The Bulgarian, Nigerian, and Turkish UNCTs also reported joint work on capacity assessments (see box, left).

### *Capacity development at the center of supporting national development*

As per above, the new generation of UNDAFs produced in 2006 largely reflect a focus on capacity development. Many results matrices are at least partially formulated to increase the capacity of government and other actors within priority areas. These areas include a clearer focus on the capacities of rights-holders and duty-bearers.

Although many UNCTs report capacity building activities by agencies in different fields, fewer country teams report specific activities to mainstream capacity development in the UN's work as a whole. However, interesting field examples — particularly in relation to UNDAF — are numerous.

- **Bosnia and Herzegovina** focused all cooperation areas on important elements of capacity building. For example, joint action was undertaken in the context of a UNDP programme to build the capacity of the War Crime Chamber (WCC).
- **Botswana** identified capacity in the UNDAF review report as part of the development 'niche' for the UN. Agency-specific country programmes integrated capacity development as a cross-cutting issue.
- **Guatemala** supported the strengthening of 30 municipal governments. Community councils were legalized and institutionalized, optimizing their civil participation functions.
- **India** held a workshop on integrating capacity development into its new UNDAF and drafted the UNDAF outcomes from that perspective
- **Namibia** focused one of the three UNDAF outcomes on capacity. The capacity outcome included strengthening national and regional institutions capacities to deliver essential services for vulnerable groups, as well as improving national statistical systems for evidence-based decision-making and gender, HIV/AIDS, and environment mainstreaming.
- **Nicaragua** enhanced the scope of capacity development activities to counterparts and allies through the Global Development Learning Network.
- **Panama** included discussions of capacity development in at least two of its ordinary meetings during 2006. Government capacity needs assessments will be carried out by sector and/or purpose in 2007.
- **Venezuela** focused on four new joint programmes on strengthening national capacity towards the achievement of the MDGs.

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### **Senegal – Building and Strengthening National Capacities on M&E**

In 2005, spearheaded by UNICEF, UNFPA, and UNDP, the UNCT helped the Senegal Government launch SENEVAL, a network to support a national sustainable process for M&E capacity building. The forum contributes to the definition of norms, methodologies, and professional practices linked to PRSP and MDGs monitoring, knowledge management, and capacity strengthening. In 2006 further agencies were included. The achievements of the network include support and sensitization of governmental, civil society, NGO, and private sector actors; the institutionalization of M&E practices via seminars evaluating advancements in national capacities; context-related training through support of academic and research institutions; and the exchange of best practices and competencies through a website to be operational in 2007.

## Bangladesh – Capacity for Implementation of International Norms and Standards

The UNCT in Bangladesh has helped the Government of Bangladesh adopt and internalize many international norms through legislation, rules and regulations, action plans, compliance monitoring, and capacity building. Such initiatives include FAO's codex alimentary standards; ILO's norms for general labor standards and for eradicating the worst forms of child labor; UNESCO's standards for safeguarding cultural diversity and for the recognition of diplomas and degrees in higher education; UNHCR's standards for refugee camps and transit; UNFPA criterion for accreditation of skilled birth attendants; and WHO's emergency preparedness protocols for SARS, avian flu, and other infectious diseases.

## Internal UNCT Capacity Assessment

In **Macedonia** the Human Rights Theme Group completed a mapping of UNCT staff capacity and activities in the field of human rights to determine further national capacity building needs for advocating, promoting, and protecting human rights. The theme group's advocacy was instrumental in the creation of an Inter-Sectoral Government Body on Human Rights, which was established in March 2006 and became the theme group's main counterpart. Similarly, in **Uganda**, the UN Theme Group on HIV/AIDS undertook an analysis of the UN's capabilities. It also conducted a division of labor exercise to establish the Joint UN Team on AIDS (JUNTA) and develop a Joint Programme on HIV/AIDS.

Finally, many UNCTs reported on agency capacity development aimed at building government institutions in different fields. Agencies focused particularly on developing capacities for HIV/AIDS policies, health, and education. Specific emphasis was placed on data collection and the monitoring of national plans (see box on Senegal and chapter on DevInfo). Much support is also provided by UNCTs in building government capacity to formulate policy and monitor the achievement of the MDGs (see chapter on MDGs). A number of UNCTs also reported activities specifically to build up the national capacity to manage assistance flows (see Aid Effectiveness, below). Capacity building through the promotion of normative standards exemplifies one of the key comparative advantages of the UN (see box on Bangladesh).

## Capacity development in transitional situations

As per the Coordination in Post-Crisis Situation later in this report, capacity development takes on a particular importance in post-conflict and transitional situations. A good example of the UN focus on capacity building is Iraq.

Since 2003 institutional strengthening and capacity development in Iraq have been essential to UNCT response to recovery, reconstruction, and development challenges. A deliberate effort has been made in almost all projects to ensure that required institutional mechanisms are made functional and the skills of concerned officials are sharpened. Through its support to the Ministry of Planning and Development Cooperation, the UNCT is supporting manpower planning. And through the project "Iraqis Rebuilding Iraq," the UNCT has enabled expatriates working in the diaspora to provide much needed technical expertise to specialized fields.

## Internal capacity assessment of the UNCT

UNCTs must themselves have the appropriate capacity to adapt to new modalities and demands at country-level. A number of UNCTs are therefore reporting efforts to assess their own capacity to deliver on the priorities envisaged (see box, left). The revised CCA/UNDAF guidelines encourage UNCTs to include an internal capacity assessment in the UNDAF development process. This helps country teams define what comparative advantages and capacity the UN has to contribute to national policy priorities.

## Conclusion

- 2006 UNDAFs reflect a strong focus on capacity development as a key UN comparative advantage.
- There are relatively few systematic UNCT-wide capacity development efforts that draw on and maximize the strengths of UNCT members and non-resident agencies.
- Similarly, few UNCTs report systematic work on capacity assessments beyond HACT.
- Internal assessments of the UNCT's own capacity are increasingly reported, reflecting the need to continuously review and adjust UNCT skill sets.

## Aid Effectiveness: Implementing the Paris Declaration

Development assistance works best when it is fully aligned with national priorities; this is the key message of the Paris Declaration on Aid Effectiveness of March 2005. To ensure implementation of the Paris Declaration across the UN system, the UNDG published an Action Plan three months later. The Action Plan focuses on three areas: (1) putting national development plans at the center of UN country programming, (2) strengthening national capacities, and (3) strengthening national systems. The 2006 Resident Coordinator Annual Reports provide insights into the UN response.

For the UN system, the Paris Declaration and the broader aid effectiveness agenda has two dimensions: externally, the UN supports governments to improve aid effectiveness through capacity development and its role as broker and facilitator; internally, the aid effectiveness agenda challenges UN agencies to review implications for UN operations and programming. This section is organized along these lines.

Overall, 2006 saw increasing awareness and action taken by UNCTs to improve the effectiveness of development work both at the national and sub-national levels. More than two thirds of UNCTs reported providing support to the implementation of the harmonization and alignment agenda.

### The UN System and the Paris Declaration in 2006

#### External Dimension

Facilitator Broker Convener Participant	Capacity development, including for use of aid modalities and aid management	Broadening dialogue
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#### Internal Dimension

Internal organization for impact (division of labor)	Alignment of UN instruments and processes with partner-country processes	Common commitments for aid effectiveness	Changes in programming and operations
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#### *External dimension of UN engagement*

Externally, UNCTs continued to: (1) facilitate aid coordination mechanisms; (2) broaden and deepen the dialogue on aid effectiveness; and (3) develop capacity for use of aid modalities and aid management. In 2006, 25 UNCTs reported that the UN chaired or co-chaired aid effectiveness and coordination fora. Drawing on agency expertise, UNCT members also actively participated in sector working groups and in the development and implementation of sector-wide approaches (SWAs).

With a view to broadening dialogue and participation, UNCTs advocated for the

inclusion of line ministries, non-state actors, and parliamentarians in the aid effectiveness dialogue. The UNCT in Ghana, for example, advocated for space for civil society organizations (CSOs) in the Consultative Group Meeting and the 2007 budget dialogue process. The dialogue allows CSOs to advocate for a stronger emphasis on social sectors and disadvantaged areas.

In 2006 capacity development support for aid management and use of aid modalities as highlighted in the TCPR focused on three broad areas: (1) support to government aid coordination cells or units;

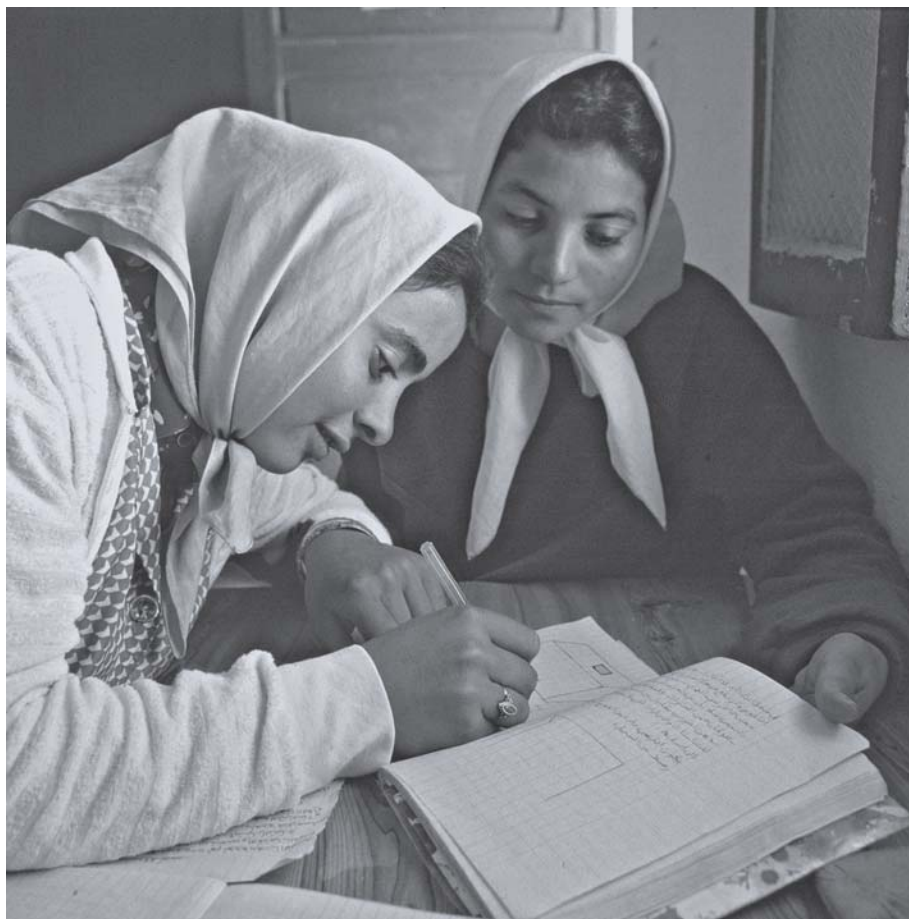


## UN Participation in the Paris Declaration Monitoring Survey

The 2006 Paris Declaration monitoring survey provided an opportunity for UNCTs to engage in aid effectiveness issues. The UNDG Guidance Note on the Role of the UNCTs in the Paris Declaration Monitoring Survey specified the dual UN role as facilitator and participant. The note highlighted the opportunity to review local aid partnerships and enhance aid effectiveness. Together with the European Commission, the UN system was the only development partner participating in all 34 survey countries. A review of the survey results concluded that:

- UNCTs have made considerable progress on alignment with national priorities and increasing national ownership.
- Comparatively little progress has been made with the use of national systems, such as monitoring and evaluation, reporting, public financial management, and procurement.
- Only 30 percent of UN assistance is currently reflected in government budgets.
- While many missions are technical in nature and follow specific government requests, the overall number of UN missions remains high.

UNDG sought to consolidate the progress made and to tackle outstanding issues. UNDG mainstreamed key aid effectiveness principles in the revised CCA/UNDAF guidelines, thereby making them the default way of working. It also began to remove specific obstacles that hinder the use of national systems.



(2) South-South cooperation for peer-learning on aid effectiveness; and (3) facilitation of intra-government dialogue on aid effectiveness, particularly focused on the strengthening of line ministries in the dialogue. The most frequently cited activity in this area was support to aid coordination units. In line with MDG 8 of building a global development partnership and the Paris Declaration's goal of mutual accountability, UN support focused primarily on deepening dialogue mechanisms, developing aid policies, and harmonizing and aligning actions plans or localized versions of the Paris Declaration. For instance, in Cambodia the UN supported the government review of the Consultative Group process and its evolution into the Cambodian Development Cooperation Forum. In Burundi the

UNCT supported a government visit to Rwanda to hear the Rwandan aid policy experience. Similarly, UNCTs in Nicaragua and Honduras facilitated governmental exchange of experience on the Paris Declaration Monitoring Survey.

### *Internal dimension of UN engagement*

Internally, UNCTs working in the changing aid environment and in seeking to implement the Paris Declaration were active in four main areas: (1) innovative internal organization for maximum impact through division of labor agreements; (2) alignment of UN instruments and processes with partner-country processes; (3) joint commitments on improving aid effectiveness; and (4) changed operational and programming practices in line with aid effectiveness principles.

### *Innovative internal organization*

UNCTs recognize that internal organization is often a precondition for effective advocacy and impact in the larger partner country/donor environment. UNCTs developed innovative schemes for division of labor and UNCT participation in policy dialogue and aid coordination mechanisms (see box, right). UNCTs stressed that the division of labor agreement process was difficult, but that the outcome — a strengthened voice of the United Nations in policy dialogue — was well worth the effort. The goal of such UNCT initiatives was to (1) contribute to a larger country-wide division of labor exercise in the context of a Joint Assistance Strategy, and (2) respond to the proliferation of sector working groups and other policy dialogue mechanisms.

### *Alignment of UN instruments and processes with partner-country processes:*

As outlined in the section on UNDAF development, in 2006 seven countries chose to replace the UN Common Country Assessment with full involvement in the process of national strategy development. Similarly, 10 countries undertook specific actions to align the UNDAF programming cycle with the national cycle. UNCTs also increasingly participated in and used annual (sector) review exercises. The UNCT Ethiopia, for example, reported that the UNDAF M&E framework was aligned with the national M&E framework, including sector reviews.

With regards to sector-wide approaches, UNCTs reported increasing activities throughout all stages of SWAp development and implementation. Because the UN is not primarily a funding agent, UNCTs reported mainly non-monetary contributions to SWAps, such as policy advice, advocacy, and building national capacity. UNCTs also provided services

## **UN Division of Labor Arrangements for Participation in Policy Dialogue**

### **Ghana**

Ahead of the next High-Level Forum on Harmonization and Aid Effectiveness in Ghana in 2008, donor sector groups have been established in 13 sectors. UNCT membership and participation were reviewed and rationalized, allowing a variety of contributions from UN agencies. This was accomplished in a coordinated manner with a lead agency being designated for each sector. UN agencies chair and co-chair some of these groups, notably Health and Education.

### **Mozambique**

The UNCT ensured enhanced harmonization with development partners by engaging more proactively in the various SWAps and the Programme Aid Partnership (PAP) Working Groups, taking on convening roles in a number of sectors (health, HIV/AIDS, gender, education, agriculture and rural development, poverty analysis, and monitoring systems). The UNCT also identified the working groups that might play a particular active role, nominated lead UN focal points for each group, and developed a ToR on lead agency responsibilities. All this facilitates the promotion of one UN voice, which is widely acknowledged and appreciated by the government and development partners.

### **Tanzania**

To enhance UN coherency in the context of the rationalization and harmonization of policy dialogue and transaction costs, the UNCT agreed on an internal division of labor (DoL) to speak with one voice. The UNCT introduced internal organizations and behaviors to promote 'jointness' and increased communication to facilitate joint UN positions. This organizational change was deemed a pre-requisite for an effective internal UN division of labor. First results in fact demonstrate that the UN DoL has led to an articulation of concerted UN positions in policy dialogue and contributed to reduced transaction costs for government.



### **Papua New Guinea – Working Together for SWAp Development and Implementation**

In Papua New Guinea, WHO, UNICEF, and UNFPA – along with two bi-laterals and the Asian Development Bank (ADB) – were driving forces for the establishment of the Sector Wide Approach in the Health Sector. The government appreciated the streamlining of health sector support and development partner interaction (planning, reporting, and financing procedures). Better coordination and collaboration were achieved among the various partners. For example, responsibility and costs for a yearly sector evaluation by an Independent Monitoring and Review Group are jointly born by the different agencies and the National Department of Health (NDoH). The central branches at the NDoH and the provincial health offices gained more flexibility on how to use their resources, which created more ownership and responsibility for programme implementation. The commonly used trust account improved accountability and transparency in the sector. The sometimes over-bureaucratic nature of the trust is about to be addressed.

### **Nicaragua – Defining the Role of the UN in a DBS Environment**

The Nicaraguan UNCT reported that the UN has a significant potential to support the efforts of implementing DBS. The UN also may enhance the impact of public service delivery through capacity development, institutional strengthening, and implementation of performance assessment frameworks. Currently, the UN is participating in the Budget Support Group and its Technical Working Groups with “observer” status and as a link with the Donor/Global Roundtable. There is a clear perception among the UNCT that the role for the UN is not in the provision of DBS per se. Rather, the UN can contribute to the improvement of the enabling environment necessary to scale up the application and efficiency of such aid mechanisms.

In this context, some possible opportunities for the UN programme portfolios have emerged:

- Increased support to the government in monitoring the targeting and impact of public sector interventions, e.g., through Public Expenditure Tracking Surveys or common country (sector) assessments, human rights-based reviews, etc.
- Contributions to the development of Institutional Capacity Needs Assessments to implement targeted technical assistance and capacity development efforts.
- Increased support to strengthen the capacity of sector roundtables to perform sector reviews and aid coordination, including follow-up on Performance Assessment Matrix indicators.

such as fund management or integrated procurement support and capacity development. In Ghana, for instance, the activities of the UNDAF Theme Group on Education were aligned with the Education SWAp work programme; and the UN was selected by all donors to chair the Education donor group. UNCTs further reported aligning their projects with national policy and coordinating programmes in the framework of SWAps. A number of individual UNCT members, however, also contributed funding to pooled funds managed by government.

The emergence of direct budget support (DBS) as an important aid modality in a number of countries has posed challenges for UNCTs. While DBS is predominantly a funding modality, framework agreements usually go beyond funding and include specific policy dialogue mechanisms. As the UN does not provide direct budget support, it usually either does not participate in these mechanisms or maintains an observer role. In Tanzania, for example, the UNCT reported that the DBS Annual Review of 2006 highlighted the significant challenges to non-DBS donors, including the UNCT. A number of key policy issues were discussed between government and DBS donors in this framework. While it was invited and participated in the review exercise, the UN role was limited to a strict observer role. Nicaragua and Ghana also reported observer status in the DBS-related coordination mechanisms.

### *Joint commitments on improving aid effectiveness*

In 2006 a number of UNCTs reported their commitment to aid effectiveness principles. In the country context, this meant signing localized versions of the Paris Declaration such as the Vientiane Declaration in Laos. Another example was the Development Partnership Framework on

Coordination of Government and Donor Practices for Aid Effectiveness in the Republic of Moldova. Usually signed by the RC on behalf of the UN system, these documents are strong statements of joint UNCT commitment to aid effectiveness principles.

Following often long preparation phases, a number of Joint Assistance Strategies (JAS) were finalized in 2006 and emerged as increasingly important instruments for aid coordination and the implementation of the Paris Declaration. Because the comprehensiveness and degree of government leadership of these strategies varies, there is no commonly agreed definition that captures all varieties. In principle, however, a JAS complements a national development plan; it outlines the “how” of development cooperation. It therefore usually includes (1) the aid policy of the government, often based on the Paris Declaration principles, and (2) a division of labor among development partners.

In 2006, UNCTs from Ghana, Kenya, Kyrgyzstan, Tanzania, and Zambia reported involvement in Joint Assistance Strategies (see box, right). To follow-through on the high-level commitment shown through participation in JAS or local aid effectiveness partnerships, UNCTs committed to progressively adjust their programming and operations. The Tanzanian UNCT, for example, reported that through implementation of the UNDAF II it is committed to progressively moving towards programme-based approaches, including use of basket funds.

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## UN Involvement in Joint Assistance Strategies in 2006

**Kyrgyzstan:** In October 2005 the World Bank (WB) in Kyrgyzstan proposed to the donor community to develop a Joint Country Support Strategy (JCSS) to coordinate donor priorities and support the government’s Country Development Strategy. Five donors agreed to work together in partnership for the JCSS: the WB, Asian Development Bank (ADB), Swiss Development Cooperation (SCD), Dfid, and the UN. Three UN agencies – UNDP, UNICEF, and UNHCR – actively participated in the planning process throughout, providing ongoing feedback to the UNCT regarding JCSS process and substance. It became clear in the JCSS development process that the UN was more than just another donor; it brought with it its global mandate to support the follow-up with international commitments. Within the JCSS development process, the UN placed a clear focus on the MDGs, human rights, poverty reduction, child rights, gender, and the environment. The JCSS development process became an indirect mechanism for capacity building for high-level government decision-makers. Early outcomes indicate that the JCSS: (1) became a reference for other donors, putting the UN in a solid position to influence the JCSS priorities; (2) can be the major donor-government interface for the Country Development Strategy; and (3) is a long-term process for formal dialogue and advocacy with other critical donors and with the government.

**Zambia:** In mid-2006 agreement was reached between the Government of Zambia and its cooperating partners (CPs) on the preparation of a Joint Assistance Strategy (JASZ) to serve as the collective response to the 5th National Development Plan (NDP). The JASZ provides a sectoral division of labor among the CPs, including the UN. It defines the principles that will guide the CPs in providing development support to the 5th NDP in a coordinated fashion. Under this arrangement, the UN will provide co-leadership in five areas: HIV/AIDS, gender, health, environment, and governance. Furthermore, the RC will be part of a troika arrangement (with Sweden and the EU) responsible for coordinating the implementation of the harmonization and alignment agenda with the government. The third Zambia UNDAF is fully aligned with the JASZ and provides the organizational framework for UNCT participation.

### Drawing on their recent experience, UNCTs reported a number of lessons learned:

- The UN can proactively propose a Joint Country Support Strategy.
- Full UNCT engagement is required.
- The often intense negotiations increase the value of the UN’s brokering role.
- Agreeing to and following-through on principles of aid effectiveness established in a JAS can prove challenging for UNCT and may require major adaptations.
- Participation in JAS division of labor agreements requires UN-internal division of labor agreements.
- Aligned with or adapted to the JAS, the UNDAF can organize UN participation.

### *Changed operational and programming practices in line with aid effectiveness principles*

Much of the UN progress in the implementation of the Paris Declaration was achieved at the programmatic level. Furthermore, a number of UNCTs spearheaded approaches to bring operations in line with aid effectiveness principles. In this context, UNCT reporting focused mainly on the on-going simplification and harmonization efforts in the context of UN reform, described in other chapters of this report, such as joint programming. In this sense, the UN simplification and harmonization agenda can be seen as the intra-UN implementation of the Paris Declaration.

In this context, a further step towards achieving accountability for development resources and results is the reflection of UN assistance on the national budget, which can be shared with legislatures and citizens. UNCTs are challenged to provide timely, transparent, and comprehensive aid information to partner authorities.

UNCT Tanzania reported that strengthening the policy-budget link has been a major undertaking in 2006, with the UN jointly providing aid projections over the time-frame of the Medium-Term Expenditure Framework (MTEF). While not yet perfected, the exercise is seen as a concrete step towards further empowering national planning systems and the management of increased aid inflows through the Treasury. UNCT Indonesia also reported efforts to provide clearer indications on the amount of UN assistance to the government. UNCT Kenya went a step further and continued its innovative practice of aligning its programming cycle with the government's fiscal year as well as with aligning fiscal disbursements. Finally, a major (though not yet fully implemented) change in UN operations programmes in line with aid effectiveness principles is the Harmonized Approach to Cash Transfer to Implementing Partners (HACT).



### *Conclusion*

The Paris Declaration Monitoring Survey 2006 provided rich opportunities for UNCTs to reflect and act upon their role in enhancing aid effectiveness. While they reported increasing activity and interest in this area, UNCTs also mentioned a number of outstanding challenges:

- Increased staff training and internal capacity development on both aid effectiveness and the implications of the Paris Declaration for UN operations are still required.
- UN internal division of labor agreements have been reported as a precondition for full participation in partner country processes. Arriving at these agreements is easier if a global division of labor exists, such as in the HIV/AIDS area.
- Alignment and integration of UN instruments and process with partner country processes was perceived as real and pragmatic steps towards country-level implementation of the Paris Declaration.
- In complex and multi-partner processes, such as the development of Joint Assistance Strategies, the UN role of brokering and facilitation increases in importance. A number of governments explicitly called for the UN to play this role.
- UNCTs reported that capacity development for aid modalities and aid management is currently strongly focused on central aid coordination units. Collaborative UNCT efforts could contribute to expanding this assistance to line ministries and other partners.
- Follow-through to aid effectiveness commitment and principles poses challenges for UNCTs constrained by multiple UN systems, procedures, and policy positions — and current regulations.
- UNCTs also call for increased efforts to communicate the distinct role of the UN in relation to the new aid modalities and environment.

## External Dimension

### Participation in Dialogue and Aid Effectiveness Mechanisms

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**Ghana:** UN participated as observer in direct budget support mechanisms.

**Philippines:** The UN actively participated in the Philippines Development Forum through its seven working

groups, pursuing advocacy and accelerated implementation of MDG goals via joint actions of the UN Thematic Groups.

### Facilitation, Brokering, Convening – Leadership in Aid Effectiveness Mechanisms

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**Cambodia:** The UN supported the government review of the Consultative Group process and its evolution into the Cambodian Development Cooperation Forum

**Congo:** By the end of the year, 19 donors, representing 90 percent of ODA, agreed to join the combined UNDAF and CAS, known as the Country Assistance Framework (CAF).

**Maldives:** The government, jointly with UN Maldives, initiated the Maldives Partnership Forum, which provided an avenue for the government and development partners to interact and coordinate efforts.

**Bosnia/Herzegovina:** In 2006 the UNCT established a Donor Coordination Forum including the 17 largest donors to BiH to increase donor coordination and aid effectiveness. Five meetings took place.

### Support to Paris Declaration Monitoring Survey

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**Cape Verde:** UN supported the government through coordination of donor survey input.

**Ukraine:** The UNCT advocated for the endorsement of the Paris Declaration by Ukraine.

**Honduras:** The UNCT promoted the exchange of South-South experiences with Nicaragua on the process of government/donor harmonization.

### Capacity Development for Use of Aid Modalities and Aid Management

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**Burkina Faso:** UNCT supported the aid coordination secretariat.

**Burundi:** UNCT supported the aid coordination agency through supporting South-South cooperation with Rwanda.

**Cape Verde:** The UN is supporting the internal aid coordination mechanisms of the government by a team of UN Volunteers working within the Ministry of Foreign Affairs.

**Ethiopia:** UNICEF and UNFPA provided capacity development support to the government in the area of procurement. In line with the Paris Declaration, UN agencies continued working towards using government procurement systems in the longer term.

**Guatemala:** The UN system has played a leadership role to push the alignment process and has supported the National Planning Secretariat with technical assistance to coordinate the international cooperation and follow-up to the commitments from the Paris Declaration.

**Zambia:** The UN carried out a macro-assessment of the public financial management system and supported the establishment of a Development Assistance Database at the Ministry of Foreign Affairs and National Planning.

## Internal Dimension – Implications for UN Operations

### UNCT Organization for Participation in Aid Effectiveness Mechanisms

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**Myanmar:** The UN Joint Team assisted the government in developing a multi-sectoral national strategic plan in the area of HIV/AIDS.

**Ghana:** UNCT reviewed and rationalized participation in 13 donor sector working groups. Lead agencies were assigned to ensure that UN contributions draw on full UNCT expertise and are presented in a coherent manner.

**Tanzania:** The UN internal division of labor led to UN ability to articulate concerted UN positions in policy dialogue, and has contributed to reducing transaction costs to the government.

**Bhutan:** UNCT agreed to developing common positions for the round-table meetings between the government and donors. As a result, two UN system joint statements were tabled on issues of common interest.

### Alignment of UNCT Instruments and Processes with Partner Country Processes

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**Ethiopia:** UNDAF monitoring and evaluation aligned with the national monitoring and evaluation frameworks, including sector reviews.

**Mozambique:** The UN and donor databases were merged and the user-friendliness of databases improved.

UN programme staff were trained on how to enter and update information in the database.

### Common Commitments and Changes in UN Operations and Programming

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**Moldova:** The UN RC signed the Development Partnership Framework, a localized version of the Paris Declaration.

**Kenya:** UNCT jointly committed and implemented alignment of the UN programme planning cycle with the government's fiscal year and worked with the government on the alignment of fiscal disbursements.

**Bangladesh:** A first attempt to conduct a joint annual review of the country programmes was conducted in December, establishing a mechanism for jointly monitoring UN programme results and significantly reducing transaction costs for the government.

## The Harmonized Approach to Cash Transfers (HACT)

- HACT introduces a significantly simplified and harmonized set of procedures to request, disburse, and report back on the use of funds, which is expected to significantly reduce transaction costs for partners and agencies.
- HACT introduces a change in the way cash transfers to partners are managed, emphasizing the need to increasingly use national systems and build national capacities.
- HACT establishes a system of managing risks when working with implementing partners as opposed to using a control-based management system.
- Risks related to transferring cash to partners will be assessed on the review of these partners' financial management capacities and internal control systems.
- Risks identified will be addressed through a set of assurance activities, with stronger assurance being directed at partners with weaker systems.

## The Harmonized Approach to Cash Transfers to Implementing Partners (HACT)

The significance of HACT in the context of the Paris Declaration implementation is threefold. First, HACT firmly establishes the goal of using national systems as much as possible. It provides a step-by-step mechanism to reach this goal through the introduction of a shift from a control-based to a risk-management approach. Second, HACT challenges UNCTs to systematically approach capacity development of the public financial management system. It clearly outlines a trajectory from assessing capacity of national systems to strengthening and using financial management systems. HACT is fully integrated into the Common Country Programming Process. As such, it makes capacity assessments of the national public financial management system (macro assessment) a mandatory element of the CCA. Addressing capacity gaps then becomes a key activity in the UNDAF framework. Finally, HACT replaces the multiplicity of UN procedures and rules with a simplified and harmonized mechanism for the transfer of cash assistance to government. HACT is therefore expected to reduce transaction costs for government, reduce time constraints, and increase resources and capacities for more substantial and productive cooperation.

### *Background and implementation update*

In April 2005, HACT was launched by the Executive Directors of the UNDG ExCom agencies. HACT is mandatory for UNDP, UNICEF, UNFPA, and WFP in all programme countries. Country teams with harmonized programme cycles were expected to begin full implementation of HACT when their new cycles commenced, but no later than January 1, 2008.

From September 2005 until the end of 2006, 15 regional orientation workshops were organized: four in Africa; three in Asia and Pacific; three in Latin America, two in Europe/CIS, and two in the Arab States region. Of these, ten were conducted in 2006. A total of approximately 430 country focal points in 126 countries have been oriented. This represents over 90 percent of the total countries targeted.

Based on progress reports as of end of March 2007, of the 126 countries, the following has been achieved:

- 83 countries (66 percent) have undertaken UN staff orientation about HACT.
- 64 countries (51 percent) have introduced HACT to government and/or local donor representatives.
- Macro-assessments have been initiated or completed by 55 countries (44 percent).
- Only 37 countries (29 percent) have reported that clauses in CPAP documents are being or have been updated.
- 38 countries — or approximately one in three — have initiated or completed micro-assessments.
- 12 countries (10 percent) are currently using the Funding Authorization and Certificate of Expenditures (FACE) form for cash transfers.

Feedback received from UNCTs suggests that as the implementation of HACT progresses globally, the level of initial anxieties among government partners and UN staff decreases, and the pace of implementation improves. Many UNCTs make a significant effort to use HACT as a tool for fostering more consistent work on increasing local partner capacity to manage public funds and facilitate proper internal control systems. Still, the implementation remains scattered, with country offices moving ahead at different paces.

According to the below table, 75 countries were expected to have begun using HACT by January 1, 2007. Another 27 countries were lagging behind, defined as having not yet initiated a macro-assessment. And 12 countries were already using the FACE form.

Region	Countries with 2007 deadline only	Delayed (macro-assessment not yet initiated)	Using FACE
Africa	29	11	4
Asia-Pacific	12	2	4
Europe/CIS	16	5	2
Latin America, Caribbean	13	6	2
Middle East	5	3	0
<b>TOTAL</b>	<b>75</b>	<b>27</b>	<b>12</b>

### Conclusion

- HACT implementation is still in an early phase and a detailed assessment whether HACT indeed becomes a catalyst for changed behavior of UN agencies at the country level, including in terms of promoting greater use of national systems, is not yet possible.
- The key task for 2007 is to ensure full implementation of HACT in all roll-out countries.
- This in turn will allow for a much clearer evaluation on whether HACT objectives are indeed reached.



### Lessons Learned from HACT Implementation

- RC and Agency Head leadership is key to the success of the HACT implementation progress. Management of the roll-out process by an inter-agency committee, with a well-defined action plan and leadership for specific activities shared among participating agencies, yields better results.
- Linking the dialogue on HACT to relevant national processes is very helpful (e.g., in Madagascar). HACT is being seen by the government and partners as part of the broader Alignment, Appropriation, and Harmonization Process (AAH).
- Closer linkages between the common country programming process and HACT generally ensures better acceptance of the new practices and a more harmonious implementation process.
- Partnerships with the Bretton Woods Institutions and bilateral donors on assessments are important to discussions on capacity gaps and capacity building measures.
- Effective implementation of HACT requires careful advocacy and training of partners. Some countries, e.g., Bosnia and Herzegovina, have developed manuals on HACT for national partners, which have proved to be very useful.