

Scoping Mission into Funding Sources of UN Agencies in Malawi

Towards a Single Budgetary Framework

Final Report

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Disclaimer: The views presented in this paper are those of the authors and do not necessarily represent the views of the United Nations Country Team in Malawi.

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Acronyms and Abbreviations

AA	Administrative Agent
AfDB	African Development Bank
AWP	Annual Work Plan
CCA	Common Country Assessment
CCPP	Common Country Programming Process
CIDA	Canadian International Development Agency
CPAP	Country Programme Action Plan
CPD	Country Programme Document
CT	Country Team
DAS	Development Assistance Strategy
DAC	Development Assistance Committee (of the OECD)
DAD	Debt and Aid Management Division (within MoF)
DfID	Department for International Development (UK)
EAI	Enterprise Application Integration
EU	European Union
ExCom	Executive Committee of UNDG (comprising UNDP, UNFPA, UNICEF, WFP)
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
GEF	Global Environment Facility
GFATM	Global Fund to fight AIDS, Tuberculosis and Malaria
GoM	Government of Malawi
GoV	Government of Vietnam
HLP - SWC	High-Level Panel on System Wide Coherence
HQ	Headquarters
IFAD	International Fund for Agricultural Development
ILO	International Labour Organization
IMF	International Monetary Fund
IOM	International Organization for Migration
JUSC	Joint UNDAF Steering Committee
LoA	Letter of Agreement
m.	Million
M&E	Monitoring and Evaluation
MA	Managing Agent
MGDS	Malawi Growth and Development Strategy 2006/07 – 2010/11 (PRS)
MoA	Ministry of Agriculture
MoEPD	Ministry of Economic Planning and Development
MoF	Ministry of Finance
MoH	Ministry of Health
MoU	Memorandum of Understanding
MoW&CD	Ministry of Women and Child Development
MTEF	Medium-Term Expenditure Framework
Natcom	UNICEF National Committee
NGO	Non-Governmental Organisation
ODA	Overseas Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Cooperation and Development
OPC	Office of President and Cabinet
OR	Other Resources

PAF	Programme Acceleration Fund of UNAIDS
PD	Paris Declaration
PRGF	Poverty Reduction and Growth Facility
RC	Resident Coordinator
RCO	Resident Coordinator's Office
RDT	Regional Directors Team
RR	Regular Resources
SA	Specialised Agency
SIDA	Swedish International Development Co-operation Agency
TCPR	Triennial Comprehensive Policy Review
TWG	UNDAF M&E Technical Working Group
UK	United Kingdom
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNBP	UN Malawi Business Plan (2008 – 2009)
UNCD	UN & Commonwealth Department (DfID)
UNCDF	United Nations Capital Development Fund
UNDAF	United Nations Development Assistance Framework
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNDSS	UN Department of Safety and Security
UNESCO	United Nations Educational, Scientific and Cultural Organisation
UNFPA	United Nations Population Fund
UN Habitat	UN Human Settlements Programme
UNICEF	United Nations Children's Fund
UNIDO	United Nations Industrial Development Organization
UNIFEM	United Nations Fund for Women
UNODC	United Nations Office on Drugs and Crime
UNV	United Nations Volunteers
USAID	United States Agency for International Development
WFP	World Food Programme
WHO	World Health Organization

1. Executive Summary

1. It is widely recognised that United Nations development assistance must be made more coherent and effective at country level in line with the Paris Declaration on Aid Effectiveness. A key area for improvement is through the establishment of a more holistic, transparent and results-oriented budget process encompassing all United Nations (UN) agencies supporting Malawi. To this end, this study seeks to prepare the ground for the development of a single budgetary framework for UN development assistance to Malawi, identifying key opportunities and constraints to such a reform and providing recommendations to orient its implementation.¹ A single budgetary framework is defined by the UN Development Group (UNDG) as a tool to clearly detail the totality of resources required to deliver UN development assistance and to facilitate the coherent management and fundraising of those resources.

2. The single budgetary framework concept is a proposal of the recent High Level Panel on System Wide Coherence (HLP – SWC, 2006), which recommended that UN reform at country level should be guided by ‘Four Ones’: One Leader, One Plan, One Budget and One Office. In Malawi the One Leader role is played by the Resident Coordinator (RC) in collaboration with the UN Country Team (UNCT). The One Plan is provided by the UN Development Assistance Framework (UNDAF) and the One Budget element will be provided by the single budgetary framework. The HLP – SWC recommendations for a single budgetary framework emphasise the need to create a transparent tool for improved management, strengthening the link between performance and funding and providing a comprehensive overview of financial data for all Funds, Programmes and Specialised Agencies in country. It will be important not to lose sight of these principles in the implementation phase.

3. The ‘Four Ones’ UN reform agenda is currently being trialled in eight Pilot countries: Malawi is well placed to be in the next wave of countries moving towards ‘One UN’.² In particular, the timing of the UNDAF cycle in Malawi – beginning implementation in 2008 – provides an ideal window through which to introduce the Pilot reforms. The Four Ones model is a highly decentralised, country-driven mode of reform, as it has proved very difficult to make rapid progress between agencies at HQ level. This means that reform must proceed on a ‘horizontal’ inter-agency basis (i.e. in a consensual and negotiated manner) and that many ‘vertical’ intra-agency constraints to reform will remain. It is therefore important to moderate expectations about what this process can realistically achieve. Agencies are unlikely to cede voluntarily any control of their central level funding for example.

4. A country-level approach has the advantage that reform can be tailored to the national context, thereby helping the UNCT to meet its commitment to adopting the principles of the Paris Declaration on Aid Effectiveness. The Declaration has five ‘norms’: national government ownership of the development process, alignment of donors in support of the government agenda, harmonisation amongst donors, a strong emphasis on results-based management and a system of mutual accountability. The single budgetary framework should contribute to a number of these norms, helping to strengthen alignment with the Government of Malawi (GoM) (particularly with the budget), harmonising relations between the UN agencies and other donors (particularly with regard to fundraising), and helping to operationalise the results emphasis that has been developed through the UNDAF and UN Business Plan by strengthening reconciliation of planned outputs with available (as opposed to required) resources.

5. UNDG has developed brief guidelines for the structuring of the single budgetary framework, drawing heavily on emerging experience from Pilot countries (UNDG, 2007). They define the single budgetary framework as, *‘the agreed, costed results of the One UN Programme/Plan in one consolidated financial framework, showing each participating UN Organisation’s planned input together with funding sources: (regular or other) as well as unfunded areas. It refers to the financial*

¹ The Terms of Reference state that detailed design work for the single budgetary framework will be undertaken in a secondary ‘design phase’.

² The eight countries initially awarded Pilot status in 2007 are: Albania, Cape Verde, Mozambique, Pakistan, Rwanda, Tanzania, Uruguay and Vietnam.

expression of the totality of the “One Plan”. According to the guidelines, the single budgetary framework is therefore composed of: (i) Regular Resources (RR) for agencies involved (often termed ‘core’ resources); (ii) Received and pledged Other Resources (OR) for agencies involved (often referred to as ‘non-core’ resources), and; (iii) the funding gap between existing resources and the total cost of One Plan. It therefore simultaneously acts as a planning and budgeting tool and as a fundraising tool, mapping both current resources for the One UN Plan as well as potential future funding. The fundraising element is centred around ‘One Fund’, a joint development fund to finance UN activities at country level and modelled on the UNDG joint programme pass-through modality, which can receive both earmarked and unearmarked funds. Local level financing from donor country offices to UN agencies in Malawi (defined in Section 4.1.1) is the most likely candidate for reallocation towards such a fund.

6. Mozambique and Vietnam provide two contrasting examples of early reforms in Pilot countries. These case studies provide guidance for the Malawi process as well as evidence to suggest that Malawi is in a strong position to advance further on the reform agenda. As with the more advanced Pilot country example of Mozambique, and unlike Vietnam, Malawi has opted for an all inclusive approach by seeking to involve all resident and non-resident agencies in the reform process as ‘participating agencies’. Further, the decision to adopt the entire UNDAF as the One Plan (as opposed to choosing a smaller selection of activities within the UNDAF) provides a stronger basis for the introduction of a single budgetary framework. The integration of Specialised Agencies (SAs) into the reform process has proved particularly difficult in Vietnam. The production in Malawi of ‘shadow’ Country Programme Documents (CPDs) by FAO and WHO indicates the willingness of the resident SAs work to overcome the higher barriers to integration into the UNDAF programming process that they face as compared to the more harmonised ExCom agencies (i.e. those on the Executive Board of UNDG: UNDP, UNICEF, UNFPA and WFP). WFP has also worked hard to reconcile its official role as a ‘humanitarian’ Excom with UNCT development programming, collaborating with the RCO to integrate its more project-focused instruments into the UNDAF process.

7. Early experience in Pilot countries also suggests that Malawi is likely to encounter a number of agency-specific legal and procedural barriers to the single budgetary framework. These can often only be addressed in collaboration with HQ level, a process that is particularly challenging to coordinate from country level. **The Southern Africa Regional Directors Team (RDT) could therefore support reforming UNCTs by identifying vertical constraints that are common to many southern African countries and raising them collectively with HQs and regional offices, as well as disseminating best practice in addressing them.** This might, for example, include specific procedural difficulties encountered by specific agencies (particularly non-resident SAs) in participating in the One UN process (e.g. in signing up to a Memorandum of Understanding with UNDP) or by specific supporting donors (e.g. in the treatment of unspent funds in One Fund and the legal wording of Letters of Agreement). This could lower the administrative burden on both RCOs and agency HQs by reducing the number of bilateral problem solving exercises and facilitating participants’ access to solutions.

8. Gathering accurate data on UN development spending in Malawi is very difficult due to the fragmented and partial nature of available information (detailed financial reporting is centred around individual programmes in Annual Work Plans (AWPs) and often not publicly available) and the difficulties in separating out humanitarian spending. Combining UN and OECD statistics suggests that between 2001 and 2005, the UN system was the fifth largest grant donor to Malawi (behind the UK, World Bank, EU and US) providing approximately 8.6% of total ODA to Malawi over the period (i.e. around US\$40 million per year) through the eight resident UN agencies and ten or so non-resident agencies (NRAs) and using a total of 482 resident staff.³ This large number of UN agencies coupled with a lack of overall financial and performance reporting underscores the need for a more coherent approach to UN budgeting in Malawi. Accurate and comprehensive data

³ This staffing data reflects the position in May 2006 and does not include the Bretton Woods institutions, i.e. the IMF and World Bank (UNCT Malawi, 2006).

on the extent of local level financing to the UN in Malawi is not presented here as it was not possible to compile in the time available.

9. Donor willingness to finance the UN system is very closely related to their perceptions of three criteria: (i) the appropriateness of the UN's strategic positioning (i.e. the areas in which it chooses to be active and inactive); (ii) its effectiveness in delivering results against its stated objectives, and; (iii) the efficiency with which it implements its programmes. The performance of the UN is perceived by donors as being variable against all three criteria across the different resident and non-resident agencies. Thus, there was a strong emphasis on the need for the UN as a whole to clearly demonstrate the delivery of results over a sustained period and to improve its conformity with the Paris Declaration as a way of guaranteeing continuation of existing earmarked local financing. Progress in demonstrating clear improvements in the effectiveness and efficiency of delivery are also required before unearmarked local funding could be made available for One Fund.

10. There has been good progress in improving the results focus of the UN system in Malawi in recent years. There is now an overarching strategic document which presents programmatic and transition activities in the form of the UN Business Plan (UNBP) as well as a single and comprehensive One Plan for the UN over the medium-term in the form of the UNDAF, with a clear Results Matrix and M&E structure associated with it and relatively strong alignment with the government development plan, the Malawi Growth and Development Strategy (MGDS). However, there is still much to be done if a single budgetary framework is to be successfully implemented.

11. The UN Business Plan Steering Committee (proposed in the UNBP) will need to play a central role in building strong GoM ownership in line with the Paris Declaration framework. It could provide a high-level monitoring and accountability structure for overall delivery against the UNBP, with both a programmatic focus on the UNDAF Country Programme Outputs (UNBP Work stream 1) as well as helping to solicit input from key stakeholders – and GoM in particular – on the UN reform process (UNBP work streams 2 - 7). It should build on the structure of the existing Joint UNDAF Steering Committee (JUSC).

12. The single budgetary framework should retain a 'light touch' philosophy, avoiding adding onerous reporting requirements to government, the participating UN agencies and their respective (sub-) national partners and should not require additional UN staff. This is particularly important given that it is unlikely there will be significant increases in the overall level of funding to the UN system in the short-term as a result of the exercise and that the RC's Office (RCO) is not likely to expand significantly in order to support the process. The framework should also build on and strengthen existing processes where possible, with the UNDAF cluster structure providing an obvious guide for the budget structure.

13. The single budgetary framework should be as comprehensive as possible, capturing the full developmental expenditures of all agencies in the UN system in Malawi. It should cover all UNBP activities, including: (i) programmatic expenditures for the delivery of the UNDAF (One Plan) – both RR and OR; (ii) UN Transformation activities, and; (iii) a full and transparent picture of operational expenditures such as salaries (including those financed by RR). Only humanitarian expenditures would be exempted from inclusion in line with the convention used throughout the UN System.

14. It is important to distinguish between budgetary ceilings as fundraising targets and as best forecasts of available resources. Building in a distinction between RR, best estimates of OR (based on carry-over, 'pipeline' projects under development and firm pledges) and the associated funding gap would help to make this distinction more explicit. The sum of RR and expected OR would be the budget ceiling, while adding the funding gap would give the total resource requirement. This would help to ensure that the budget forecasts took account of any 'structural' funding gap agencies may have and thereby making budgetary forecasts more credible.

15. The single budgetary framework could be used to provide a comprehensive, integrated and transparent overview of expenditures planned in the coming year and those executed in the previous year, within the framework of the UNBP. At present there is no single forward-looking programming instrument for the UN in Malawi that presents *expected* resources (as opposed to resource needs) on an annual basis. Nor is there a single reporting instrument to demonstrate annual financial performance across the UN agencies. The single budgetary framework, if published on an annual basis, could play this role. Data could be disaggregated by cluster, by agency, and by economic classification (i.e. salaries, goods and services, transport etc.). This would require the respective agencies to establish a commonly agreed system for classifying expenditures. Such a holistic instrument would also clearly demonstrate to donors that the UNCT is working to integrate its programming and reporting as well as making UN activities in Malawi more transparent for domestic stakeholders.

16. While humanitarian expenditures and activities are not explicitly included in the single budgetary framework, they do potentially have important impacts that should be taken into account in its design. Malawi's recent history has seen a number of humanitarian crises resulting from severe drought and associated food shortages. The UN is typically at the centre of the humanitarian response to such crises, managing large additional flows of humanitarian assistance (see Figure 8). This reinforces the need for a flexible and regularly updated single budgetary framework that remains a useful and plausible management tool during emergencies. To allow for this, a six monthly review feature, allowing a stock take of mid-year performance and a revision of budgetary estimates, should be built into the process (quarterly reviews could also be considered for crises, based on an assessment of costs and benefits). Such mid-year reviews would also help to deal with inherent unpredictability in UN development spending (see Section 4.2.1).

17. A committee of the UN agencies' finance officers, under the guidance of the RCO, could be formed to deliver the framework. As a first step, the committee could improve the management information available to UNCT by producing a retrospective picture of UN spending in Malawi for the past few years, breaking total agency spending down by central (RR and OR) and local financing. The UN could also demonstrate its stated commitment to delivery against the Paris Declaration by using such a grouping to help the UN to monitor and report its own performance with respect to the Paris Declaration baseline indicators. This might also involve making the formal channels for communication between UN agencies and the MoF - DAD more efficient and effective. One potential option to address this would be to try to align the compilation and reporting of financial data for the single budgetary framework with the GoM's reporting requirements for aid (see Table 4). This would ensure more timely, coordinated and accurate reporting from the UN system to GoM for inclusion in the budget and the Summary of Extra-Budgetary Support. The committee of financial officers could ensure that the data are produced, collated and submitted on time, with one member officially designated as the main focal point, representing the UN system to the MoF in financial reporting. It could also provide a quality assurance role to standardise the quality of returns and support agencies with weaker financial capacity in meeting the MoF requirements.

18. The 'financing gap' identified in the single budgetary framework will provide a clear focus for joint fundraising. Each cluster could identify its unfunded outputs and, on the basis of a prioritisation process for these unfunded outputs both at cluster and UNCT level priority unfunded activities could then be selected for joint fundraising. Wherever country office discretion allows, agencies could seek to harmonise cost recovery rates on such projects at 7%. Assuming that the issue of the additional 1% addition to cost recovery rates was not a barrier, these selected programmes could then be financed through the One Fund (termed 'UN Programme Fund' in the UNBP) either via unearmarked or earmarked donor funding (using the pass-through modality). This would promote a more coherent and holistic approach to UN fundraising and help to reduce the current practice of 'menu shopping' by bilateral donors. There would still be scope for donors providing earmarked funding to support preferred programmes and agencies. This is perfectly acceptable as long as it is earmarked to support UNCT strategic priorities and does not lead to funding imbalances.

19. Joint fundraising and/or the provision of unearmarked local financing will clearly require a system for prioritisation of UNDAF activities. A first phase of prioritisation should be undertaken at cluster level and involve the ranking of unfunded Country Programme Outputs, lead by the cluster conveners in consultation with GoM. Sequencing as well as relative importance would need to be taken into account here as high priority Outputs may be conditional upon prior delivery in other areas.

20. While earmarked finance in support of One Fund priority programmes would undoubtedly play an important role, the aim is for a growing proportion of One Fund finance to be unearmarked over time. However, initial indications are that there is limited willingness on the part of donors to provide unearmarked financing to support the One Fund element of a single budgetary framework. Further, those donors who are willing to consider providing unearmarked financing made clear that definite progress in demonstrating clear improvements in the effectiveness and efficiency of delivery are required before providing such financing. **The RC and UNCT might therefore seek to establish a reform plan with supportive donors containing a selected set of clear and time-bound benchmarks in the UN reform process (perhaps selected from the UNBP) together with unearmarked funding commitments (perhaps of relatively small amounts) to be disbursed upon delivery against the benchmarks.** This would help to ensure that the UNCT could embark on reform in the knowledge that local financing patterns would begin to change as a result (with unearmarked funding the reward for successful reform).

21. The adoption of joint fundraising and the allocation of unearmarked resources would require a 'Firewall' to separate the roles of RC and UNDP Resident Representative. This would entail the appointment of a UNDP Country Director in order to end the current practice of 'double hatting' whereby the same individual performs both roles (although UNDP could continue to host the RCO until the move to One Premises). Though there are no such issues at the moment, the present arrangement could risk making the prioritisation and resource allocation processes open to allegations of a funding bias to UNDP in future years. The appointment would send a clear signal of high-level support to the reform efforts of the UNCT in Malawi.

22. The UN in Malawi is well placed to take advantage of the benefits offered by the 'One UN' initiative but it must work to gain the trust of the donors who will be required to provide the associated funds. This will require the UNCT to use the single budgetary framework, first and foremost, as a means of improving transparency, coherence and alignment of UN development assistance and of providing high quality performance management information. Such a framework can potentially be used in generating realistic budget estimates, reconciling planned outputs to available resources, strengthening the quality and timeliness of financial reporting to the MoF, and improving the quality of information regarding UN system compliance with the Paris Declaration baseline indicators. It should also provide a framework within which difficult prioritisation decisions can be taken, thereby providing an increasingly coherent strategic focus to UN development assistance. These are worthwhile steps in themselves, but should also serve to build donor support for the provision of local funding flows to UNCT priority projects. The delivery of the 'Four Ones' should also be accompanied by deeper reforms that address the UN's strategic positioning and effectiveness. Ideally the result will be an increase in unearmarked funding over the medium- to long-term.

2. Introduction

23. The overall objective of this study is to prepare the ground for the development of a *single budgetary framework* for UN development assistance to Malawi. A single budgetary framework is understood to deliver the 'One Budget' element of the 'four Ones' that are guiding country-level UN reform. The other elements of the four Ones are: 'One Leader', 'One Plan' (also often referred to as 'One Programme') and 'One Office'. It is intended to show the totality of resources required to deliver the UN development programme as expressed in the One UN Plan – which in Malawi is the UN Development Assistance Framework (UNDAF) – and to facilitate the coherent management and fundraising of those resources. It should therefore detail clearly the sources of UN finance as well as expenditures (which in turn should be disaggregated by sector and agency). The fundraising element of the single budgetary framework is centred on the establishment of One Fund, which is intended to finance unfunded activities in the One Plan. Given that the primary leader of development in Malawi is the Government (GoM), it also seeks to improve the alignment of the UN with national processes such as the state budget, within the framework of the Paris Declaration on aid effectiveness.

24. This report seeks to establish the key considerations for the transition to a single budgetary framework in order to enhance the coherence and effectiveness of the UN in Malawi, highlighting some of the general and UN Organisation-specific considerations that need to be taken into account when developing a single budgetary framework. To this end, a field visit was undertaken between 13th and 28th September 2007. The fieldwork was primarily interview based. A total of 21 interviews were conducted with representatives of GoM, UN agencies and other donor agencies. Within the UN, these included representatives of the RCO, UNDP, UNICEF, FAO, UNAIDS, WFP, UNFPA, WHO, UNHCR and Southern Africa Regional Directors Team (RDT).⁴ Donor representatives from Norway, the UK, the Netherlands, the USA, Canada, the European Union, the African Development Bank and Ireland were also interviewed. A GoM position was provided by the Ministry of Finance Debt and Aid Management Division. See Annex 1 for a full list of those interviewed.

25. Malawi has been formally invited by the Secretary General to join the One UN country-level reform Pilot process – which is currently underway in eight countries – in 2008 (see Sections 3.2.1 and 5.1 – 5.2 for more detail on this process). The introduction of a single budgetary framework represents an important step within the package of One UN reforms in the Pilot process. The terminology used in the One UN Pilot countries is adopted throughout.⁵ It should be noted that this study represents the first phase of a two stage process, with the detailed design of the framework to be undertaken in a secondary "design phase".

26. The report has three main Sections. Section 3 establishes the context for UN reform in Malawi, briefly discussing international and national development processes. Section 4 discusses trends in financing to the UN system, briefly outlining international trends before looking in more detail at financial flows to the UN in Malawi (within the constraints imposed by limited data availability). Section 5 then discusses the feasibility of introducing a single budgetary framework in Malawi, looking at experience in other Pilot countries, reporting findings from field interviews and mapping out a possible model for the UNCT to consider. Section 6 provides a summary and offers recommendations.

⁴ The Southern Africa RDT comprises the Regional Directors of the UNDG ExCom agencies (UNICEF, UNCDF, UNDP, WFP) and the equivalent regional managers of the key UN Secretariat bodies (OCHA, UNAIDS) as well as the Regional Directors of all UN technical agencies. RDT members are expected to be resident in the region and vested with programmatic and operational authority over their respective organisations in southern Africa (RDT Southern Africa, 2006).

⁵ In particular, the term 'single budgetary framework' is used throughout to describe the 'One Budget' component of the Four Ones, following the High-Level Panel's terminology (HLP – SWC, 2006). It is also referred to in other documents as 'One Budgetary Framework' (UNDG, 2007), 'One UN Financial Framework' (Zollinger, 2007) and as a 'single financial framework'. These are taken to be synonymous.

3. Context

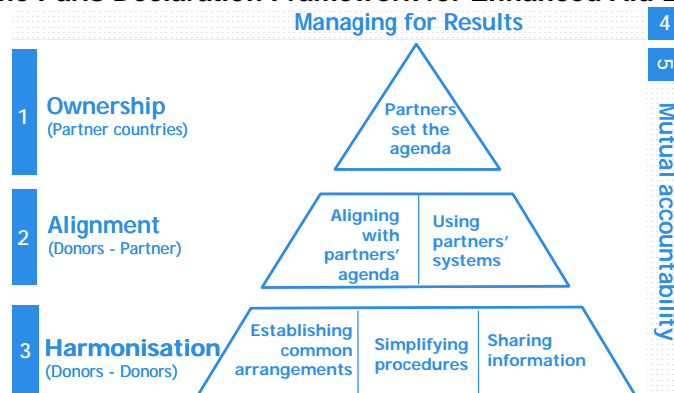
27. The development of One Budget through the introduction of a single budgetary framework can only be understood and properly undertaken with reference to international and national development processes. At an international level the key developments include the aid effectiveness agenda and the UN reform process, with particular reference to the 2006 report on System Wide Coherence (HLP – SWC, 2006). At the national level in Malawi, the key reference points are provided by the key GoM medium-term planning documents – the Malawi Growth and Development Strategy (MGDS) and the Development Assistance Strategy (DAS) – and the UN country programming process, with particular emphasis on the UNDAF, which provides the ‘One Plan’ element of UN reform in Malawi.

3.1. The Broader International Reform Environment

3.1.1. The Aid Effectiveness Agenda

28. Recent reforms in aid delivery have focused on improving national ownership, harmonisation and alignment and the results focus of aid. These principles are embodied in the Paris Declaration on Aid Effectiveness (PD) (OECD – DAC, 2005). Signed by 61 bilateral and multilateral donors (including the United Nations Development Group or UNDG), and 55 aid recipient countries (including GoM), at the High-Level Forum on Aid Effectiveness in Paris in 2005, the PD is a joint undertaking on the part of both the donor community and partner countries to make aid more effective, establishing 12 agreed indicators which are intended to be monitored over time through suggested targets.⁶ In particular, signatories made a commitment to reform the way development assistance is currently delivered in three broad areas: recipient-country ‘ownership’ of the development agenda; donor alignment with both the priorities and goals set by partner countries as well as an increased reliance on national administration systems; and more coordinated, streamlined and harmonised actions among multiple donors. As well as the core building blocks of ownership, alignment and harmonisation, the PD also has two crosscutting concepts: mutual accountability and an emphasis on management for results. A visual representation of these five ‘norms’ of the Paris framework is featured in Figure 1 below.

Figure 1: The Paris Declaration Framework for Enhanced Aid Effectiveness



Source: OECD Working Party on Aid Effectiveness.

29. The commitments on management for results call for donors and partner countries to work together to manage resources for the achievement of development results, using information on results to improve decision making. Countries are expected to develop cost-effective results-oriented reporting and performance assessment frameworks; donors commit to using any such arrangements and refrain from requiring separate reporting. Mutual accountability is intended to hold donors and partner governments accountable to each other for their respective actions and emphasises the need for a systematic review and monitoring of mutual commitments. At present mutual accountability processes are at an early stage of development (Booth et al., 2007).

⁶ UNDG is an inter-agency group for UN reform. It was created by the Secretary General in 1997, to improve the effectiveness of UN development at the country level. The UNDG brings together the operational agencies working on development and is chaired by the Administrator of UNDP on behalf of the Secretary General.

3.1.2. Recent UN Reform Initiatives

30. The UN was, at its inception, designed to be a decentralised institution, albeit with a relatively simple organisational structure. Its subsequent expansion has made it increasingly complex and has exacerbated the decentralised nature of funding and decision making. As a result, ‘...*both coordination and strivings for administrative reform [are] more difficult. It also complicates assignment of responsibility and determination of accountability*’ (Sasz, 1999). Moreover, this structure runs counter to the prevailing thinking in aid effectiveness primarily in the form of the PD. As a result it hampers the effectiveness of the UN’s development activities. There have therefore been repeated attempts to reform the UN with a view to making it a more coherent and strategic development actor. In recent years these have included in particular the recommendations of the Triennial Comprehensive Policy Review (TCPR) (2004) and the Report of the Secretary General’s High-Level Panel on System Wide Coherence (HLP - SWC, 2006). The HLP report highlighted in particular the need to press ahead with UN reform at the country level, promoting the concept of “One UN”, based on a consolidation of all United Nations programme activities at the country level.

31. The model proposed by the HLP in order to achieve this involves centring UN country reform around the “four Ones”, with One Leader, One Plan/Programme, One Budget and, where appropriate, One Office. The One Budget element of this package was intended to comprise a single budgetary framework for all UN development activities in country. Box 1 provides a summary of the core elements, which place a strong emphasis on transparency, management, performance and comprehensiveness. Eight One UN Pilot countries were subsequently nominated to trial these reforms, with each country given significant leeway to tailor its reforms to the local context, within parameters specified by UNDG. The eight countries initially given Pilot status in 2007 are: Albania, Cape Verde, Mozambique, Pakistan, Rwanda, Tanzania, Uruguay and Vietnam. Although Malawi was not included in this group it is set to receive Pilot status in 2008 (see Section 5 below) and the UNCT has pressed ahead with reform, publishing a position paper on UN reform in Malawi well before the release of the HLP report (UNCT Malawi, 2006).

Box 1: High-Level Panel Recommendations for the Single Budgetary Framework

The HLP report suggested the following core components for the single budgetary framework at country level:

- Transparency, management, and the effective implementation of the One Country Programme through One Budgetary Framework.
- Funding should be linked to the performance of the UN Country Team preparing and implementing a strategic One Country Programme.
- The budget should be completely transparent, showing clearly the overheads and transaction costs of the United Nations and all of its Funds, Programmes and Specialised Agencies in the country.

Source: HLP – SWC (2006)

32. In pursuing this reform agenda at the country level, the UN agencies are led by the “One Leader”, which is the Resident Coordinator’s role, in collaboration with the UN Country team (UNCT), which comprises the heads of all resident UN agencies and the RC. The RC is often also “double-hatting” as the UNDP Resident Representative, as is the case in Malawi.

33. The HLP – SWC recommendations and subsequent progress on implementation have emphasised steps to be taken at country level, as there is limited scope for rapid progress at HQ level due to political constraints. However, country level reform can only proceed on a consensual and negotiated basis, relying mainly on the UNCT to work around institutional barriers to inter-agency harmonisation. This is because no single UN agency has the formal mandate to impose reform on other agencies. Instead reform progress relies more on the personalities involved and their respective agencies’ financial and human resources.

34. It should also be noted that the HLP – SWC recommendations envisage a transition from country-level funds in the One UN Pilots to an HQ level ‘MDG Funding Mechanism’. This would be financed by voluntary contributions and would serve to coordinate overall resource flows and allow global oversight. It also aims to reduce the country-level administrative burden associated with a

different UN fund for each Pilot country. In the absence of the HQ-level MDG Funding Mechanism for all donor funds, bilateral agreements at the country level are the only way to move forward. However, in the long run the aim is to simplify and reduce overall administrative burden through a central-level funding mechanism.

3.2. Malawi Development Context

3.2.1. Malawi Growth and Development Strategy (2006/07 – 2010/11)

35. There is a single, Government led medium-term development plan to orient national development: the Malawi Growth and Development Strategy (MGDS). The MGDS was launched in late 2006 and covers the five-year period 2006/07 – 2010/11 (the GoM financial year runs from July 1st – June 30th each year). It is based around five thematic areas: (i) sustainable economic growth; (ii) social protection; (iii) social development; (iv) infrastructure, and; (v) good governance. These thematic areas are then broken down into a further nineteen sub-themes. While these thematic areas and sub-themes are very broad in scope, the MGDS clearly establishes promotion of economic growth as its central priority. As the President makes clear in the Preface, '*The main thrust of the MGDS is to create wealth through economic growth and infrastructure development as a means of achieving poverty reduction*' (GoM 2006; p. iii). Although the importance of cross-cutting themes such as gender is referred to in the text, there is no systematic attempt to categorise and integrate these within the MGDS. There are also six 'priority areas' in the MGDS, which are central to the strategy and addressed across the five themes. They are: Agriculture and Food Security; Irrigation and Water Development; Transport Infrastructure and Development; Energy Generation and Supply; Integrated Rural Development; Prevention and Management of Nutrition Disorders, HIV and AIDS.

36. The MGDS is accompanied by matrices which seek to translate the MGDS vision into an operational strategy. These 'MGDS Matrices' are set out in Volume 2 of the MGDS (GoM, 2006a) and cover the five MGDS thematic areas. They follow a logical framework structure: (i) longer term goals; (ii) medium-term expected outcomes; (iii) constraints to achieving the medium-term outcomes; (iv) strategies required to deliver medium-term expected outcomes, and; (v) focus actions. Only a few of the expected outcomes and focus actions have associated time-bound and quantified targets and there is no clear allocation of organisational responsibilities. The MGDS and associated matrices will be implemented through the Government budget, within the Medium Term Expenditure Framework (MTEF) which will help to ensure that the aim stated in the MGDS that the overall share of expenditure in percent of GDP will not change to ensure the maintenance in composition of the priority expenditures.

3.2.2. Development Assistance Strategy

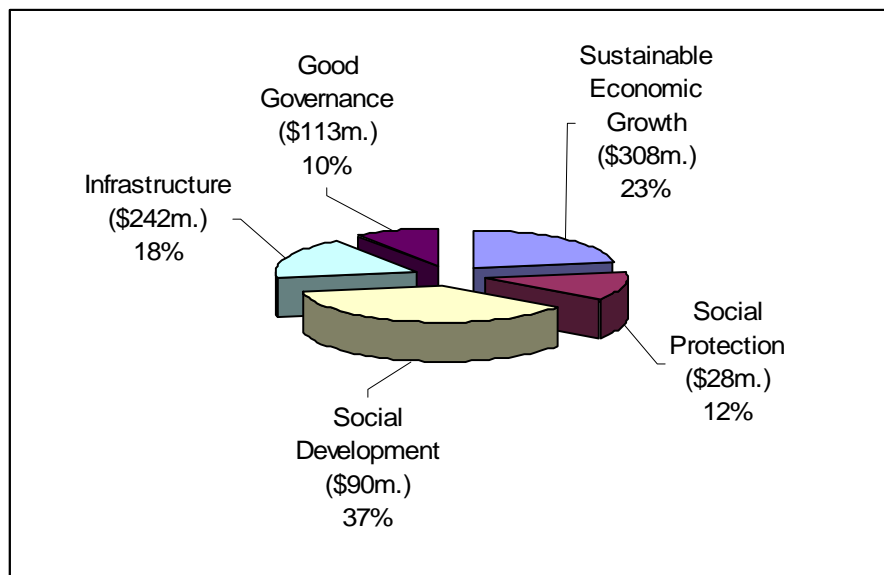
37. GoM is also finalising a Development Assistance Strategy (DAS) which '*sets out the policy and strategies for increasing efficiency and effectiveness in the mobilisation of and utilisation of... aid in achieving the development results set out in the MGDS*' (GoM, Forthcoming; p. 2). The DAS aims to achieve this objective through the five norms of the PD and their associated indicators (setting time-bound targets and baselines) as well as a set of country-specific actions, with time-bound targets, seeking to reform both the Government's use and reporting on Aid and own resources and the modalities with which support is administered.. Overall, the DAS urges donors to make the PD principles '*operational and not aspirational*' (p. 13). Unlike the MGDS, the DAS does not have a specific time period over which it should be implemented – rather it is intended as a 'living document' that will evolve as development assistance issues change in the future, with specific time-bound activities set out in the DAS and an associated Action Plan. The DAS drafting process was lead by the Debt and Aid Management Division (DAD) of the Ministry of Finance which acts as GoM's focal point for the coordination and administration of foreign aid and as the primary channel of communication with aid agencies.

38. The DAS also partly functions as a GoM fundraising document. It makes clear that a system for determining and *closing* the financing gaps for the MGDS is to be put in place through the costing and prioritisation of MGDS activities followed by estimation of the available resource envelope. Some elements of this process have already begun: the costing is being undertaken by the MoEPD while the prioritisation process involved a first, already completed, phase where sector ministries and departments and other stakeholders ranked activities into three priority categories.

In a second phase, the MoEPD then ranked all Category One activities within each sub-theme according to their contribution toward overall MGDS objectives. This is not a one-off process however: It is envisaged that there will be constant iterative revision of top priorities from amongst MGDS activities over the five-year period.

39. Preliminary estimates in the DAS indicate that the total cost of all MGDS activities is around K635 billion (around US\$4.6 billion) of which K517 billion (US\$3.8 billion) or 81% have not yet had a financing source identified. Focusing solely on Category One priorities, these will cost an estimated K511 billion (US\$3.8 billion), which represents around 80% of total estimated MGDS costs. Of this K511 billion, K433 billion is unfunded (i.e. 85%) which, as the DAS notes, '*implies that a significant amount of prioritisation within priority 1 activities will be required*' (GoM, Forthcoming; p.9) and means additional prioritisation amongst non-Category 1 makes little sense as they are not likely to be financed given the size of the estimated shortfall. Figure 2 provides an overview of the estimated financing requirements for MGDS 'Priority 1 Activities' by Theme. It should be noted that the Figure does not include the costs of the proposed US\$2.4 billion Shire-Zambezi Waterway project, which is not classified within any single MGDS theme.

Figure 2: Estimated MGDS Resource Requirements for Priority 1 Activities by Theme⁷



Source: Adapted from GoM (Forthcoming).

3.2.3. Malawi Aid Environment

40. Net official aid to Malawi over the period 2001 to 2005 averaged around 19.7% of GDP, of which around 10.7% was channelled directly to the government. The ambitious medium-term objectives contained in the MGDS will require substantial additional aid flows, and projections indicate that there will indeed be a degree of scaling-up in Malawi, with net aid flows set to average 24.0% of GDP over the period 2006 – 2010 (see

⁷ Figure does not include the \$2,386 million Shire-Zambezi Waterway which is not classified within any single MGDS theme, but is included in the DAS as a separate Priority 1 Activity.

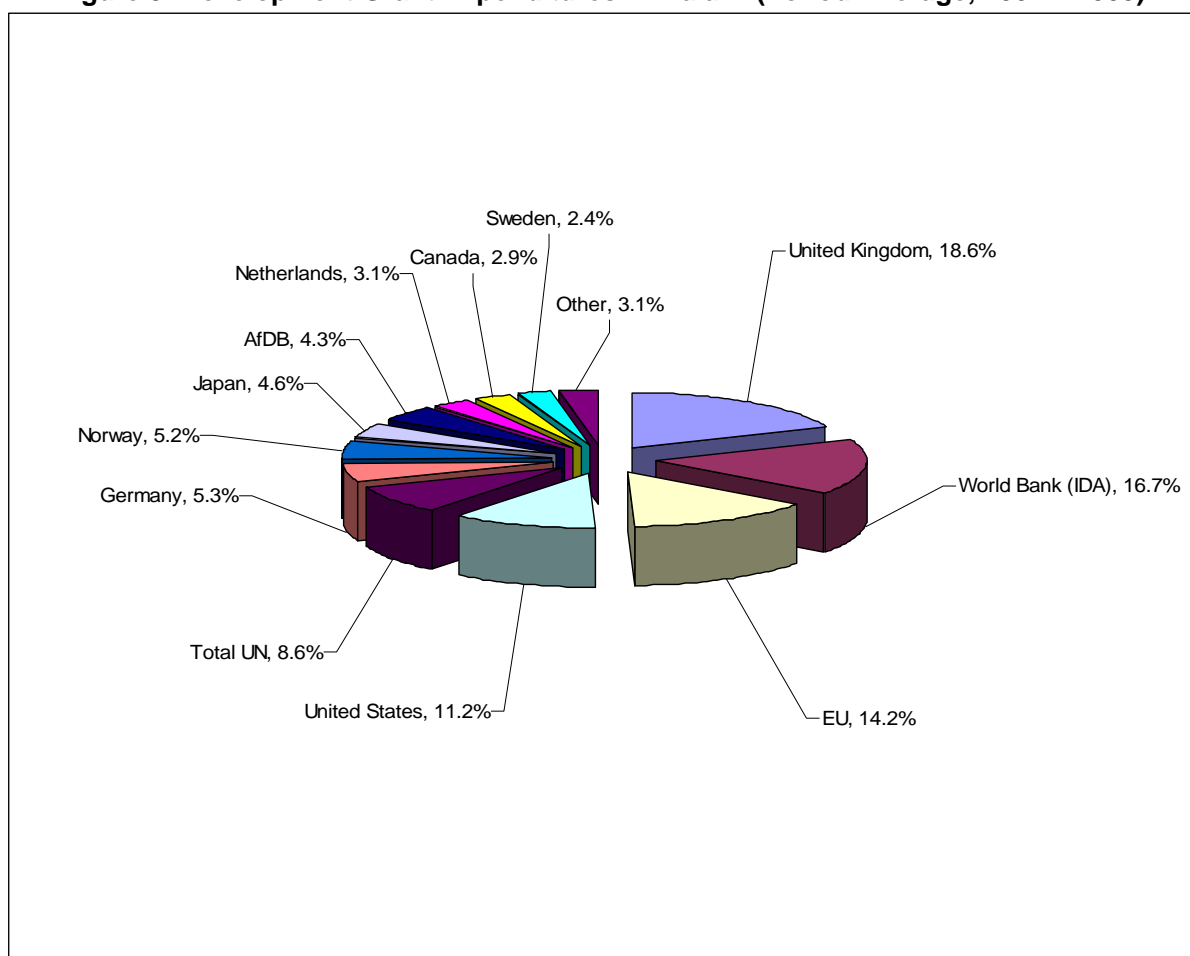
Table 1). It is also interesting to note that project aid to GoM was almost twice as large as programme aid (comprising sector pooled funding and GBS) over 2001 – 2005 and that for 2006 – 2010 projections indicate that project aid will become even more dominant as a share of total aid to GoM, over three times as large as programme aid.

Table 1: Net Official Aid Flows (% of GDP, Period Average)

	2001 – 2005	2006 – 2010
Net official aid to Malawi	19.7	24.0
Net aid to Government	10.7	18.2
Gross Aid	13.2	18.4
Programme Aid	4.5	4.4
Project	8.7	13.9
Debt Service Paid	-2.5	-0.2
Project Grants to NGOs	9.0	5.9

Source: IMF (2007).

41. In absolute terms, Malawi received around US\$575 million in foreign aid in 2005, of which UN agencies accounted for around US\$42.3 million (excluding WFP spending on the grounds that the majority is humanitarian assistance) according to OECD – DAC and UN Statistics Division data. Over the past five years (2001 – 2005), the principal donors over the period have been the World Bank, UK, EU and US (see Figure 3). The data available for total UN expenditures over the same period (excluding WFP spending), averaged around 8.6% of all development grant spending.

Figure 3: Development Grant Expenditures in Malawi (Period Average, 2001 – 2005)⁸

Source: OECD – DAC database and UN Statistics Division Common Database.

⁸ Figures are net of debt relief and humanitarian spending. Shares should only be regarded as indicative as they calculated using data from two different sources.

3.3. Role of the UN in Malawi

42. There are a total of eight resident agencies in Malawi. Of these, five are funds and programmes (UNDP, UNFPA, UNHCR, UNICEF and WFP), two are Specialized Agencies (FAO and WHO) and UNAIDS has a unique status as a Specialized Programme. A further ten non-resident agencies (NRAs) also support activities in Malawi (IFAD, ILO, UNESCO, UNHCHR, UNEP, UNODC, UNIDO, UN Habitat, UNCDF and UNIFEM). Two of these, UNCDF and UN Habitat have full representation delegated through the RC (see Annex 2 for a full list of agencies active in Malawi and their classification).⁹ As of May 2006, the resident UN agencies employed a total of 482 staff in Malawi, of whom 113 were international and 369 (i.e. around 77%) were nationals (Annex 3 provides a breakdown of staffing levels by agency).

43. In a 2006 position paper on the “Role of the UN Malawi in a Changing Aid Environment”, the UNCT describes the UN system as having the, *‘mandate, neutral political positioning, convening power and role, policy expertise and technical capacity to support the Government of Malawi in managing its development strategies’* (UNCT Malawi, 2006). The paper goes on to identify coordination, policy support and technical advice, capacity development, implementation support, resource mobilisation, emergency relief and disaster preparedness and support to the implementation of the Paris Declaration as specific areas of support that the UN should focus on providing to GoM. It emphasises the last element particularly strongly, stating that, *‘the UN is committed to national ownership and leadership of [the] development process and can support implementation of the Paris Declaration in Malawi’*. It should be stressed that the UN is already actively supporting GoM efforts to implement the Paris Declaration, providing both substantive and financial support to the DAS, the MGDS M&E Roadmap and to the efforts of the Office of President and Cabinet (OPC) to promote a comprehensive approach to capacity development for public sector management. However, the position paper also acknowledges the need for *internal* UN reform in order to deliver these services much more effectively through the introduction of one results-based country programme, one leader (the Resident Coordinator) and a common financing framework.

44. Regarding country level funding, the position paper (written before the findings of the HLP – SWC were released) states that, *‘the prospect of more predictable multi-year funding from donors for a ‘One UN’ programme to cover the UNDAF period is welcome. However, how this would be translated into practical arrangements in Malawi depends upon agreement being reached at the HQ/Capitals level.’*

45. The instruments that seek to put this vision into practice are the UN Business Plan (2008 – 2009), the UN’s overarching strategy document, and the UNDAF (2008 – 2011), which represents the programmatic components of the UNBP and provides the One Plan element of the Four Ones. Each document is discussed in turn below.

3.3.1. UN Development Assistance Framework (2008 – 2011)

46. The UN’s development programming in Malawi is based on a ‘building block’ approach, which aims to establish a harmonised UN programming cycle, and puts the MGDS and UNDAF at the centre of UNCT programming.¹⁰ The first UNDAF for Malawi covered the period 1997 – 2000 and the second UNDAF was completed in 2007 and will cover the period 2008 – 2011 (the UN financial year runs from 1st January – 31st December). Signed by the Minister of Finance and all eight of Malawi’s resident agencies, the development of the new UNDAF was overseen by a Joint UNDAF Steering Committee (JUSC) comprising GoM representatives (MoF, MoEPD, MoW&CD, MoH, and

⁹ UN Volunteers (UNV) is represented in Malawi through UNDP and is not counted as a separate UN agency here. The UN Department of safety and Security (UNDSS) also has a small staff presence in Malawi but is not counted as it does not have a developmental remit. The Bretton Woods institutions (the IMF and World Bank) are both have country offices and are formally part of the UN family, but are not classed as such in this study as they enjoy a more autonomy than other UN agencies.

¹⁰ See UN (2007) for a description of the tailor made ‘building block’ approach adopted by the UNCT. This approach was preferred to the Common Country Programming Process (CCPP), which is most useful in a context where a strong national development strategy is lacking.

MoA) and selected members of the UNCT (RC, UNICEF, UNDP, UNFPA & WFP). The Group met monthly during the UNDAF drafting process, and although it has subsequently not met, its ToR make clear that it should continue to, *'Provide regularized and continuous leadership to the GoM – UN coordination and cooperation as well as conducting regular programme reviews'* as well as to, *'Jointly monitor progress and facilitate open discussions to update UN positioning in the country and vis-à-vis emerging challenges'* (GoM & UN, 2006).

47. The UNCT invested considerable effort in ensuring that the UNDAF is fully based upon the MGDS, adopting four of the five thematic areas. While some slight alterations were necessary ('sustainable economic growth' is expanded to 'sustainable economic development and food security', 'social protection' is expanded to include disaster reduction) and infrastructure substituted for HIV and AIDS, overall the two documents are very closely aligned. The five UNDAF themes are thus: (i) sustainable economic development and food security; (ii) social protection and disaster reduction; (iii) social development; (iv) HIV and AIDS, and; (v) good governance. Added to these are four cross-cutting areas, each of which, *'has been mainstreamed in the five UNDAF theme areas, and are reflected in the UNDAF outcomes'* (UN, 2007): (i) human rights; (ii) gender; (iii) disaster risk reduction, and; (iv) capacity development for implementation. Each theme has an overarching Outcome to be delivered by 2011 and up to four Country Programme Outcomes, of which there are sixteen in total. Each Country Programme Outcome is then in turn disaggregated into a series of Country Programme Outputs (of which there are seventy five in total) which are set out in Results Matrices as an Appendix to the UNDAF and monitored by the UNDAF M&E Technical Working Group (TWG). Outputs are specified at quite a high-level, with aims such as to, *"Increase the proportion of women, men and young people accessing sexual and reproductive health services by 2011"*.

48. The UN has adopted a multi-agency cluster approach to the delivery of the UNDAF Outcomes (each cluster has one overarching UNDAF Outcome and a number of associated County Programme Outcomes), with one agency head nominated as Cluster Convener or Leader to take the lead on policy matters in discussions with Government and other partners for each theme. Each of the five clusters are therefore responsible for: *'(i) implementation and refinement of outcomes; (ii) M&E of implementation of outcomes; (iii) reporting to the UNDAF Steering Committee on a regular basis on realisation of the clusters' UNDAF outcomes, and; (iv) adjustment of outcomes, if necessary based on the mid-year or end year review of the UNDAF'* (UN, 2007; p. 22). The cluster leaders are charged with: (i) acting as a focal point for high level discussions on policy with GoM and donors; (ii) acting on behalf of the RC to ensure that outcomes are achieved, and; (iii) ensuring that cluster work plans are prepared, monitored and reviewed regularly. The cluster leaders are ultimately accountable to the UNCT and RC (and indirectly to GoM) for the delivery of results in their respective clusters.

49. In many cases the cluster system means that UN agency staff have cluster managers in other agencies. These inter-agency management and reporting lines have been built into the appraisal system which is now informed by feedback from cluster managers as well as the agency line managers principally responsible for setting targets and reviewing performance.

50. The UNDAF Results Matrices establish institutional responsibilities for each of the seventy five Country Programme Outputs. Just as each cluster has a leader, so each Programme Output has a designated lead agency, usually supported by a number of other contributing agencies.

Table 2 shows how many Country Programme Outputs each UN agency will contribute to by cluster. For example, UNDP plans to contribute to delivery of twenty seven of the seventy five Outputs, in three of the five clusters. The Table illustrates that agency activities are spread relatively broadly across the five clusters – only UNAIDS restricts its operations to a single cluster, while all other resident agencies are involved in three or more clusters.

Table 2: Agency Contributions to UNDAF Outputs by Cluster

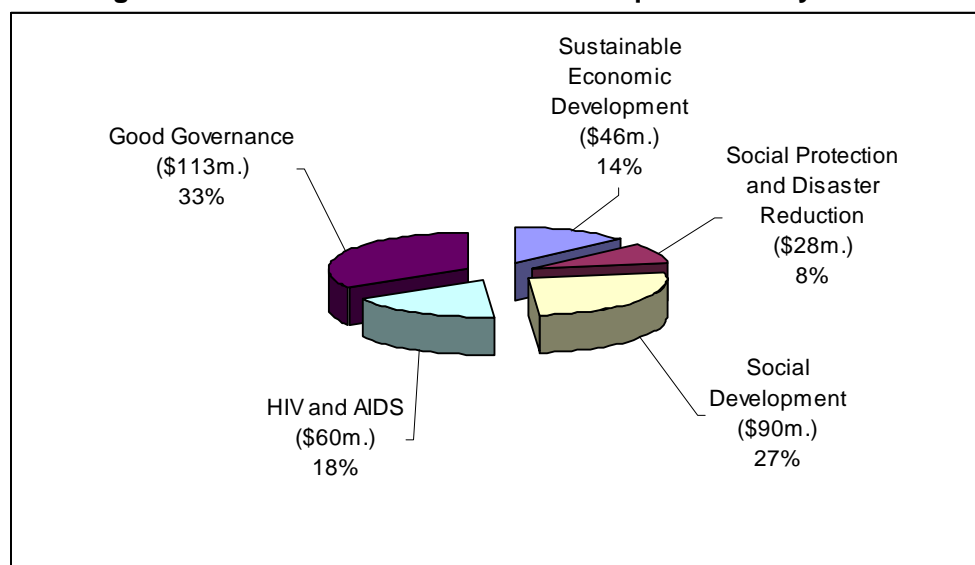
Cluster	Number of Country Programme Outputs													
	Resident Agencies								NRAs					
	UNDP	UNICEF	UNFPA	WFP	WHO	FAO	UNHCR	UNAIDS	ILO	UNCDF	UNIDO	UNIFEM	UNESCO	Total
1. Sustainable Economic Growth and Food Security	9	1				12			2		2			26
2. Social Protection and Disaster Risk Reduction	8	7	6	6	5	7	4		1					44
3. Social Development		23	5	5	16	1	1		1				3	55
4. HIV and AIDS		11	5	5	9		1	3	1					35
5. Good Governance	10	9	8	2		3	4		1	1		1	2	41
Total	27	51	24	18	30	23	10	3	6	1	2	1	5	201

Note: There are a total of 75 distinct Country Programme Outputs, but since many involve multiple agencies, the total number of agency responsibilities is 201.

Source: Adapted from UN (2007).

51. The total estimated resource requirement for UNDAF implementation over four years stands at US\$337 million according to the UN Business Plan, although this will be subject to revision as cost estimates become firmer (this figure already represents a revised estimate on that initially cited in the UNDAF document itself of US\$265 million). This represents a high-level indicative figure rather than a detailed bottom-up activity based costing. Figure 4 illustrates how the resource requirement figure is broken down amongst the five UNDAF clusters, with Good Governance and Social Development the two largest portions (constituting a combined 60% of the total).

52. Comparing the UNDAF estimated financing requirement in Figure 4 with the financing requirements for the MGDS Category One priorities (displayed in Figure 2 above) provides a very rough indication of the UN's particular areas of focus. It is clear that the UNDAF places a stronger emphasis on Good Governance (with 33% of proposed expenditures as opposed to 10% in the MGDS), while there is a lesser emphasis on Sustainable Economic Development (14% vs. 23%), Social Protection (8% vs. 12%) and Social Development (27% vs. 37%). The UNDAF HIV/AIDS cluster and the MGDS Infrastructure Theme both account for 18% of the financing requirements in the respective documents.

Figure 4: Estimated UNDAF Resource Requirements by Cluster

Source: Adapted from UN (2007b).

3.3.2. Implementing the UNDAF: the Building Block Approach

53. The UNDAF is a very high-level document, and additional programming instruments are required to translate the cluster Country Programme Outputs identified there into workable cluster AWP for the clusters for implementation. Under the 'building block' approach that UN Malawi adopted, the UNDAF was followed by the drafting of Country Programme Documents (CPDs) by each of the ExCom agencies for the period 2008 – 2011, setting out key priorities and broad estimates of associated resource requirements.¹¹ The CPD states the priority problems to be addressed by the agency's programme of cooperation, outlines the programme components, how programme strategies will lead to expected results, and the resources needed. While they do not normally have to do so, the resident Specialised Agencies (FAO and WHO) also produced CPDs in support of One Plan (see discussion in Section 5.3.1 below).

54. The UNCT did request that only one national CPD should be produced, but this was refused by headquarters on the grounds that agency CPDs are essential legal documents within the ExCom planning process. As a result it was not possible to produce a single Country Programme Action Plan (CPAP). Instead, each of the ExCom agencies has developed its own CPAP, which specify their respective Country Programme Outputs with associated resource requirements and indicating whether these will be sourced from RR or OR.

55. For the ExComs, the next stage of the planning process involves development of Annual Work Plans (AWPs) for 2008 in order to deliver on their respective Country Programme Outputs as identified in the UNDAF Results Matrices. These will then be integrated into cluster AWP which will set out each cluster's planned activities for the coming year towards the delivery of the respective UNDAF Outcomes.

3.3.3. UN Business Plan (2008 – 2009)

56. The UN Business Plan or UNBP (UN, 2007b) is the overarching strategic plan for UN Malawi, providing a unified country strategy for the two year period 2008 – 2009, encompassing both the One Plan and the UN reform process in Malawi and accompanied by a detailed work plan setting out activities, timelines, resource requirements and responsibilities. It also serves as a basis for integrated UN resource mobilisation. Developed by the RCO in collaboration with the UNCT, it has two pillars: (i) work stream 1 comprises the UN development programmes as set out in the separate UNDAF document (which, as mentioned, is synonymous with the One Plan in Malawi), and; (ii) work streams 2 – 7 comprise reform-related 'UN Transformation' activities. The six transformation work streams are listed as: Common Services, Common Premises, Harmonisation and Alignment, Joint Communication and Advocacy, Disaster and Humanitarian Coordination and Joint Resource Mobilisation for the UN Business Plan (including the development of a single budgetary framework).

57. A number of the reform activities outlined in the UNBP are of direct relevance to the development of the single budgetary framework. For example, the Common Services work stream looks at areas where UN agencies can share services needed by all so as to improve efficiency and exploit economies of scale. It includes an Enterprise Application Integration (EAI) process, being led by WFP, that aims to establish a common platform for integrated UN financial reporting to GoM and other stakeholders, circumventing the different agencies' accounting systems, which at present cannot communicate with one another (for example UNFPA and UNDP use a system known as ATLAS while UNICEF uses a system known as PROMS).

58. The estimated resource requirement for the UN Transformation activities is around US\$2.7 million. Added to the estimated UNDAF resource requirement of US\$337 million this gives a total estimated UN Business Plan resource requirement of around US\$340 million. A UN Transformation Fund has already been established in order to finance the (smaller) transformation component, and is supported by the Netherlands, Norway and the UK. The Business Plan also proposes to establish a 'UNBP Joint Steering Committee' (comprising GoM, UN, donor and civil

¹¹ Of the ExCom agencies, WFP is officially considered as a 'humanitarian' agency and does not produce a CPD. It has nonetheless worked to integrate its programming instruments with the UNDAF process: see Section 5.3.1 for a discussion.

society representatives) to take on the role of the UNDAF joint Steering Committee together with oversight of the UN reform process and with support from the Resident Coordinators Office. It is also proposed to establish a 'UN Programme Fund' to channel joint fundraising efforts for the financing of the UNDAF/One Plan.

4. Financing the UN System

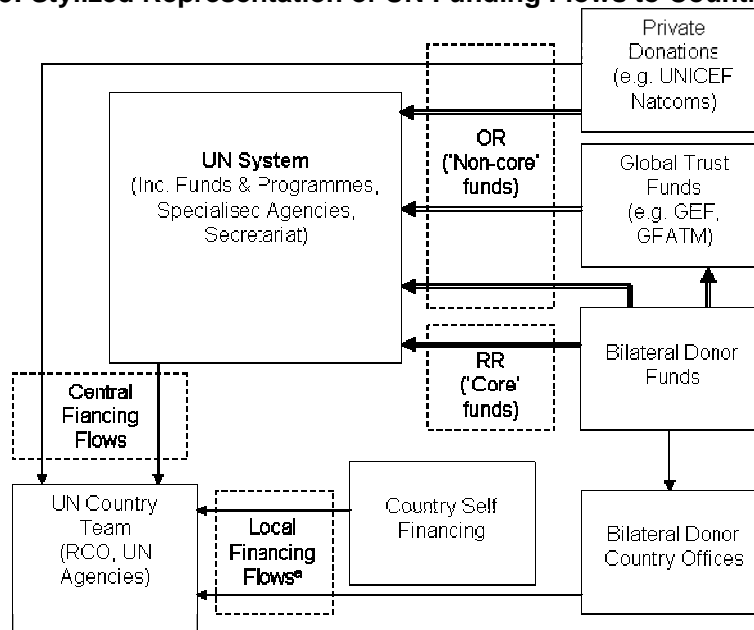
4.1. Core Concepts

4.1.1. Regular, Other and Local Resources

59. Before proceeding with a discussion of trends in UN finances, it is important to define some core concepts. Regarding financing to the UN system, Zollinger (2007) provides a common classification of UN funding, establishing two key distinctions. First, between whether funding is received centrally – i.e. channelled via HQ, including the regional level – or locally (i.e. from in-country donor agencies). Second, centrally allocated funds can in turn be classified according to whether they are provided as unearmarked 'core' resources (also referred to as regular or general resources) from Member State governments or as 'non-core' resources (also sometimes referred to as supplementary or extra-budgetary funds in the case of Specialised Agencies) which are earmarked for spending by particular agencies for specific purposes and may come from either member States or non-governmental sources (such as the thirty six UNICEF National Committees or 'Natcoms'). Earmarking, or providing funds on the condition that they are spent on a donor-defined activity or area, may be on a thematic, regional or programme basis and can be provided at headquarters or country level.

60. All locally allocated funds – which are invariably earmarked to specific programmes – are classified as non-core by the UN agencies which receive them, but for the purposes of this study they are of particular interest (as they are potentially sources of finance that could be channelled through One Fund) and it is therefore useful to try to separate them out (see Figure 5 below for a simplified representation of the different financial flows to UN agency country offices). As in Zollinger, core resources are referred to throughout as Regular Resources (RR) and non-core as Other Resources (OR). These are the official terms used by UNDP, UNICEF and UNFPA.

Figure 5: Stylized Representation of UN Funding Flows to Country Level¹²



Note: ^aLocal financing flows are also categorised as OR by UN agencies.

Source: ODI.

¹² This is a simplified picture designed to capture major funding flows (e.g. it does not show financing via multilateral donors).

61. It is worth noting that RR for Specialised Agencies (those operating in Malawi are FAO, WHO, ILO, IFAD and UNIDO) is financed by compulsory assessed contributions from the UN Member States, while RR funding for funds and programmes (e.g. UNDP, UNICEF, UNFPA) is based on voluntary contributions from Member States. However, no distinction is made here between these different types of core financing – they are both treated as RR in the analysis.

4.1.2. Cost Recovery

62. Another central concept is that of cost recovery. As Lindores (2007) notes, in defining cost recovery it is best to focus on Funds and Programmes, which have made strong progress on harmonising their costs into three categories: (i) Direct Costs which are charged directly to a programme budget (for both RR and OR financed activities); (ii) Fixed Indirect Costs (also known within UNDP as Basic Infrastructure Costs) which cover basic agency functions essential for their operation and are financed from RR in the cases of UNDP, UNICEF and UNFPA or by individual programmes (irrespective of their source of financing) in the case of WFP, and; (iii) Variable Indirect Costs (essentially Programme Support Costs) are associated with costs over and above Fixed Indirect Costs but that cannot be attributed to a specific individual programme and are recovered through the application of proportionate 'cost recovery rates' against RR and OR financed activities.

63. Cost recovery rates on OR (referred to by different terms in different agencies) are normally levied as a pre-agreed percentage fee (sometimes termed an 'overhead') on Other Resources and can vary by agency and by programme (the term 'programme' is defined throughout as a set of activities contained in a common work plan and related budget). For example, UNDP might agree to a 7% cost recovery rate on a programme to be financed by a particular donor. Relatedly, 'full cost recovery' refers to a cost recovery rate that recoups the full variable indirect costs of a project or programme. At present the majority of UN agencies do not set cost recovery rates that satisfy full cost recovery and as a result rely on cross-subsidies from RR finances to meet full indirect costs associated with primarily OR financed projects and programmes. Thus, cost recovery rates should not be regarded as a direct measure of agency 'administrative efficiency', even though they are sometimes presented as such. Only WFP, which does not use the 'Variable Indirect Costs' category has achieved full cost recovery.

4.1.3. Joint Programming

64. Joint programming is the collective effort through which the UN organisations and national partners work together to prepare, implement, monitor and evaluate their activities (UNDG, 2003). This process is drawn together in a joint programme, which is a set of activities contained in a common work plan and related budget, involving two or more UN organisations and (sub-) national partners. Officially, there are three different ways in which joint programmes can be financed: parallel, pooled and pass-through fund management (combinations of these options are also allowed). Box 2 provides definitions of these options – note that parallel and pooled funding may involve both OR or RR, while pass-through only applies in wholly OR-financed joint programmes.

65. Joint programmes are of particular relevance to the formulation of a single budgetary framework because the mechanisms used, and in particular the pass-through mechanism, provide possible ways of channelling local financing in support of such a framework.

66. The pass-through mechanism can also be used as a broad national-level funding and fundraising mechanism (and without a specific joint programme associated with it), such as for special Trust Funds approved for emergency purposes. It is the mechanism recommended in UNDG guidelines for the financial management of the One Fund (UNDG, 2007) and is therefore of particular interest (although the pooled funding mechanism was also mentioned as a potential method for the financing of One Fund in discussions with the Southern Africa RDT).

Box 2: Financing Options for Joint Programming

Parallel: recommended where the agencies involved in the joint programme each deal with different (sub-) national partners, this option sees each organisation managing its own activities within a common work plan and budget, whether financed from OR or RR. Each UN agency prepares Certified Financial Reports annually for its programme components and responsibility is assigned for the preparation of aggregated/consolidated Financial Reports amongst participants.

Pooled: recommended where UN agencies work for common results with a common (sub-) national partner. Funds are pooled, with one of the participating UN agencies (chosen jointly) designated as a Managing Agent (MA). The cost recovery rate of the MA is applied to the funds it manages, and the MA is responsible for following up with (sub-) national partners regarding disbursement of funds and implementation. The MA is also accountable for narrative and financial reporting to the joint programme coordination mechanism, preparing Certified Financial Reports annually and a final Certified Financial Statement at the end of the joint programme.

Pass-through: used when two or more UN agencies develop a joint programme, identify funding gaps and then submit a joint programme document to one or more donors. If the donors and participating UN agencies agree to channel programme funds through a single agency, then the pas-through mechanism can be used, with the channelling agency being designated Administrative Agent (AA) and imposing a 1% cost recovery rate (with a \$20,000 minimum and a \$100,000 maximum fee).¹³ The cost recovery rates charged by each agency are reflected in their respective budgets and programmatic and financial accountability remains with the respective UN agencies and (sub-) national partners, with the AA preparing consolidated Financial Reports annually and a Sources and Uses of Funds Report after the completion of the joint programme. Other participating agencies prepare Certified Financial Reports annually and final Certified Financial Statements at programme end for its components of the programme. The mechanism is established through the signing of a standard MoU between participating UN agencies and the AA, and by Letters of Agreement between donors and the AA.

Source: UNDG (2003) and UNDP (2006).

4.2. Sources of and Trends in Funding to the UN System

4.2.1. General Trends in UN Finance

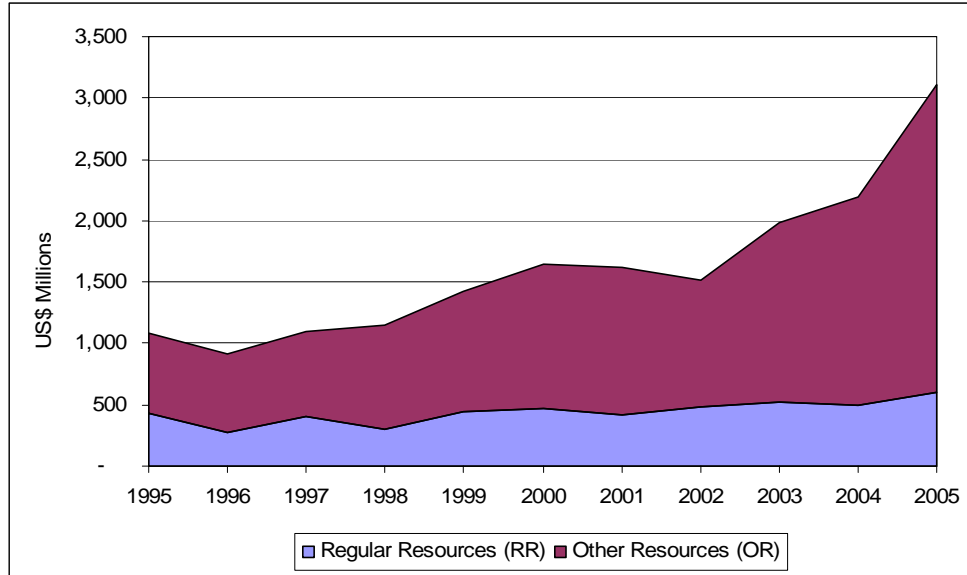
67. According to OECD – DAC figures, over the ten year period 1995 – 2005, total contributions to all funds and programmes grew faster than total international development assistance, at an average annual growth rate of 10.0% (compared to 4.5% for total ODA, net of debt relief). However, this increase has been predominantly driven by non-core resources, while core funding to the UN System has stagnated over the same period (see

¹³ This fee covers administrative costs, including treasury functions, preparation of a Sources and Uses of Funds Report, and consolidation of certified reports received from the participating organizations.

Figure 6 below). Indeed, when expressed as a proportion of total contributions, RR have been in steady decline for the last ten years (see Figure 7).

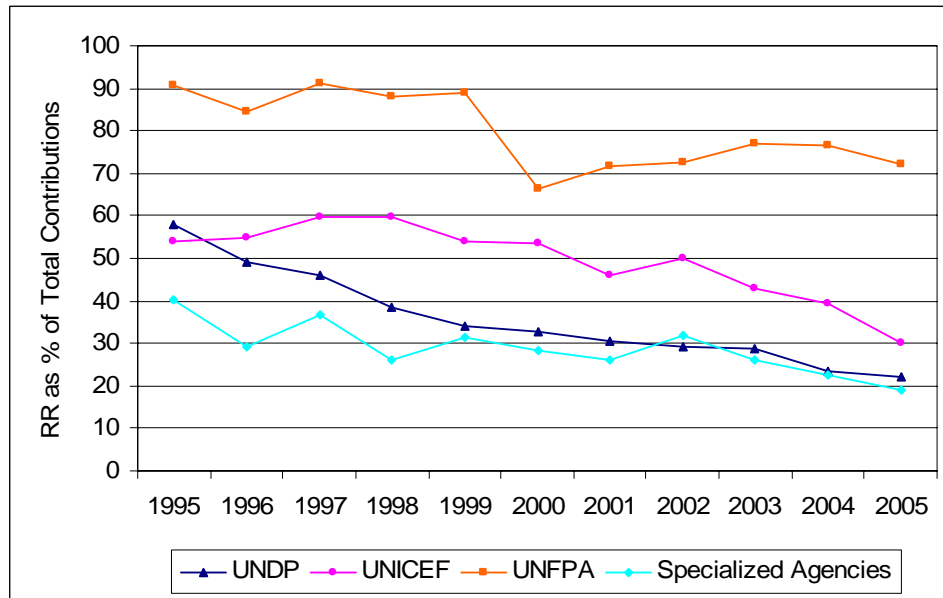
68. As Lindores (2007) observes, these trends have changed the nature of the UN system, introducing heavy transaction costs associated with negotiating, tracking and reporting on funds, building in high levels of volatility, allowing a small selection of Member States to set priorities, and essentially turning the UN agencies into contractors that compete with one another for the right to implement donor projects. Cross subsidisation of OR from RR in order to present more efficient projects in the competition for funding has further undermined the RR available to agencies.

Figure 6: Contributions for Operational Activities of the Specialised Agencies



Source: Lindores (2007a).

Figure 7: Declining Share of Regular Resources as a Proportion of Total Contributions for UN Agencies, 1995 – 2005



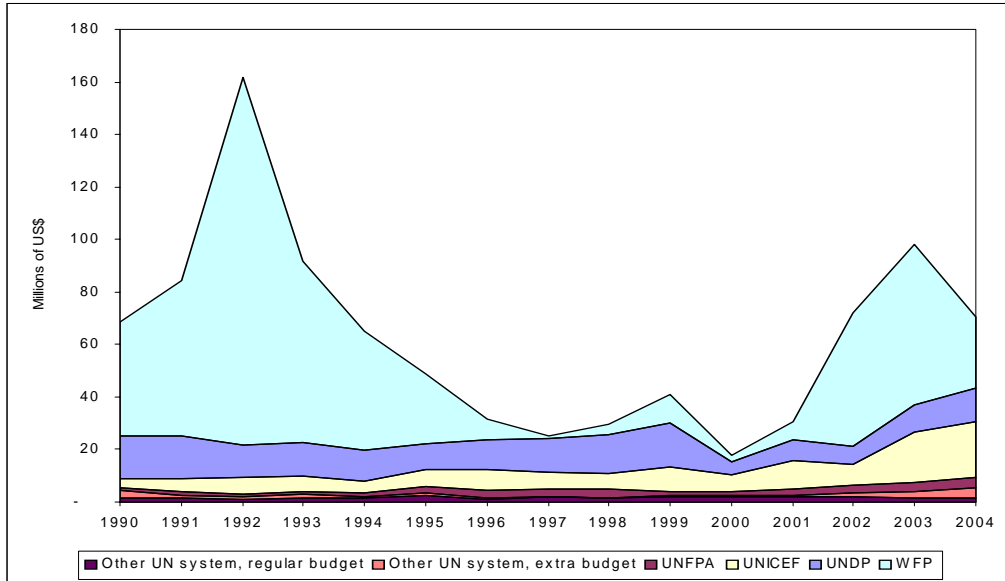
Source: Lindores (2007).

4.2.2. UN Expenditures in Malawi

69. Overall, the largest UN agency – in spending terms – in Malawi over the period 1990 – 2004 has been WFP, with total UN expenditures fluctuating dramatically in response to food crises.

70. Figure 8 below illustrates the peaks in UN spending associated with droughts in 1991-2 and 2001-02.

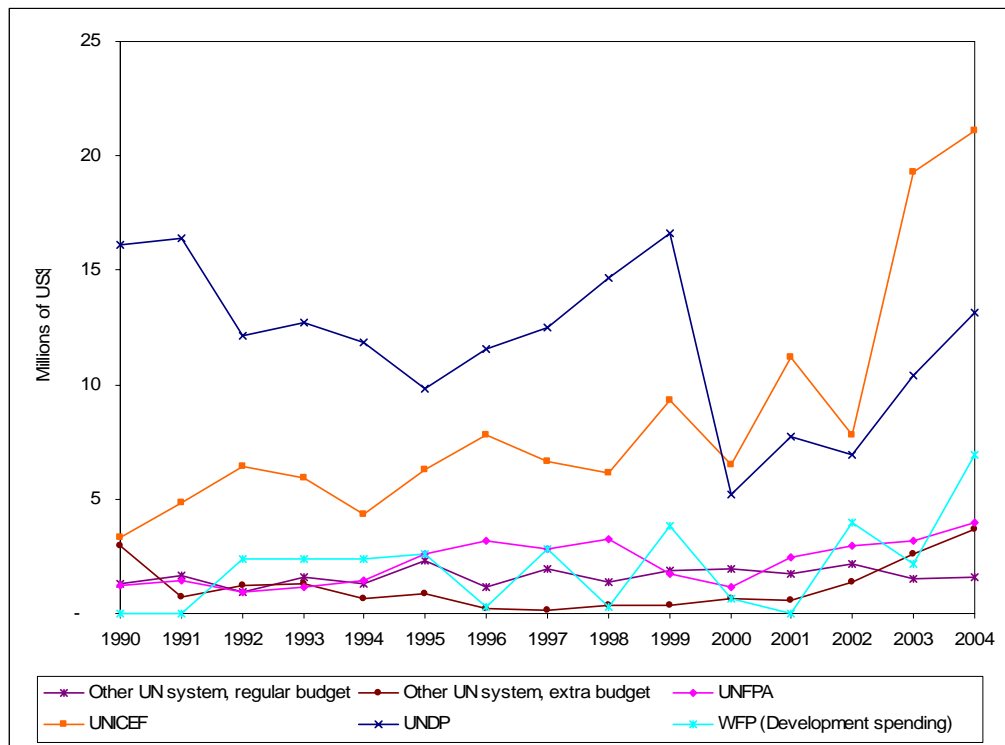
Figure 8: Overall Spending Volumes by the UN in Malawi, 1990 – 2004 (US\$)



Source: UN Statistics Division Common Database.

71. Netting out humanitarian support provided through WFP, UNICEF is at present the largest financier to the UN system in Malawi (providing an estimated US\$21.7 million in 2005 according to UN Statistics Division data), followed by UNDP (US\$14.5 million) and UNFPA (US\$3.7 million). Figure 9 provides an overview of funding trends for the period 1990 – 2004, net of WFP humanitarian spending (though retaining expenditures classified as ‘developmental’). Accurate and comprehensive data on the extent of local level financing to the UN in Malawi is not presented here as it was not possible to compile in the time available.

Figure 9: Spending by the UN in Malawi net of WFP, 1990 – 2004 (US\$)



Source: UN Statistics Division Common Database and WFP Malawi.

5. Towards a Single Budgetary Framework

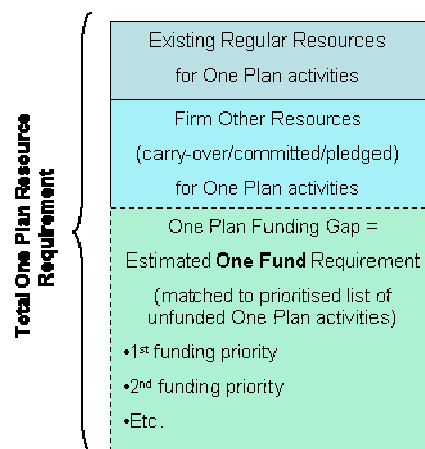
72. Malawi is set to become a “One UN” Pilot country in 2008. This was confirmed in a letter from the UN Secretary General Ban Ki-moon to the President of Malawi in February stating: “We would... be pleased if your Government would agree to be among the first countries to implement the “One UN” initiative during the next phase of the pilots, expected to start in 2008. This timing would fit with the schedule for implementation of the United Nations multi-year development assistance framework to Malawi, which will begin on 1 January 2008. It will also allow Malawi to benefit from the experience and lessons learned during the initial wave of United Nations Pilot countries.” (UN, 2007a). Before discussing the Malawi-specific components of a single budgetary framework (Section 5.3 below), the existing guidelines set out by UNDG and relevant experience from other Pilot countries are discussed (Sections 5.1 and 5.2).

5.1. Existing Guidelines

73. The One UN Pilot exercise is a strongly country driven process, with light touch guidance from regional and global levels that has been developed on the basis of emerging Pilot experience. To this end, UNDG – the body charged with supporting UN operational coherence, including the Pilot countries – has released brief guidelines for the structuring of single budgetary frameworks in the eight One UN Pilot Countries, though many of the Pilots diverge from these in some respects (UNDG, 2007).

74. The guidelines suggest that the UNDAF should ‘form the basis of’ a common UN development plan referred to as “One UN Plan” (which may therefore be a sub-set of the activities identified in the UNDAF).¹⁴ The single budgetary framework (referred to as ‘One Budgetary Framework’ in the guidelines) is then intended to coordinate funding sources, reduce overlap and ensure priorities within the One Plan are adequately financed. The formal definition of a single budgetary framework (or One Budgetary Framework as it is referred to in the guidelines) is, ‘the agreed, costed results of the One UN Programme/Plan in one consolidated financial framework, showing each participating UN Organisation’s planned input together with funding sources: (regular or other) as well as unfunded areas. It refers to the financial expression of the totality of the “One Plan” (UNDG, 2007; p. 3).

Figure 10: Stylized Representation of Proposed Single Budgetary Framework



Source: Adapted from UNDG (2007).

75. The single budgetary framework is therefore composed of: (i) Regular Resources for agencies involved; (ii) Received and pledged Other Resources for agencies involved, and; (iii) the funding gap between existing resources and the total cost of One Plan (see Annex 4 for the template proposed by UNDG for the presentation of this information). **It therefore simultaneously acts as a planning and budgeting tool and a fundraising tool, mapping both current resources for the One UN Plan as well as potential future funding.**

¹⁴ As noted, for Malawi the UNDAF has been adopted in its entirety as the One Plan (UN, 2007b).

76. The guidelines go on to set out the principles that should orient the One Fund, defined as a joint development fund to finance UN activities at country level and modelled on the UNDG joint programme pass-through modality. It is proposed that any new funding for the One Plan should be encouraged to be committed as unearmarked financing to this Fund, which is to adopt the pass-through mechanism (see Box 2 above). The One Fund will then finance the (unfunded) strategic priorities within the One Plan. It is suggested that the One Fund resource requirement should be defined as the total resource requirement for the One Plan, net of existing RR and existing OR (i.e. that which is committed and/or pledged) – see Figure 10.

77. According to the UNDG guidelines, the One Fund therefore represents a joint fundraising window for unfinanced portions of One Plan activities. It aims to attract unearmarked funding with no overall additional reporting burden on recipients, receiving early and multi-annual commitments from donors to promote predictability. The central idea is that more coherence and strategic direction is given to UN activities by allowing the RC (in consultation with the UNCT and Government) to allocate funds to the highest priorities amongst unfunded activities within the One Plan. This would be done through a Steering Committee co-chaired by the RC and including representation from government and participating UN agencies. The Steering Committee would also monitor overall delivery of the One Plan.

78. It is worth noting here that while there is no possibility of establishing One Fund without first having put in place One Plan and the associated single budgetary framework, in theory it is possible to have a stand alone single budgetary framework without establishing One Fund (although no Pilot country is proposing this at present). However, this would detract from the benefits of the exercise both in terms of the increased coherence provided by more strategic fundraising and resource allocation and in terms of the potential additional financing available to the UNCT.

79. Governance of the One Fund would be undertaken at country level involving participating UN agencies and government with some form of consultative mechanism with the UNCT and donors. The RC would be responsible and accountable for overall fund level reporting with support from UNDP (which would act as the Administrative Agent) in terms of narrative and financial reporting.

80. Preconditions for the establishment of the Fund are: (i) an approved One Plan document; (ii) ToRs establishing corporate and country specific arrangements for the One Fund; (iii) an MoU between participating UN agencies and the AA, and; (iv) a Letter of Agreement (LoA) between the AA and the donors for joint programme pass-through (UNDG, 2007).

5.2. Emerging Examples: Pilot Countries

81. Some early evidence from Pilot countries has now emerged regarding the initial phases of reform in 2007 that can help to inform the process in Malawi. The cases of Mozambique and Vietnam merit particular attention as they represent relatively well advanced and yet contrasting examples. Mozambique provides a very full and clear example of how a single budgetary framework and associated One UN Fund might work in practice: the Mozambican model is therefore discussed in some detail. It also represents a case where the UNCT has involved all resident and non-resident agencies in the process from the outset. Vietnam, on the other hand, started to reform well before 2007 and represents a more strongly government led example, with deeper reform in terms of changes intra-UNCT responsibilities and, relatedly, has progressed incrementally according to those most able to do so rather than adopting an all-inclusive approach. In particular, the Specialised Agencies have found it difficult to integrate into the Vietnamese process. The figures presented in this Section are based on information provided by DfID – UNCD.

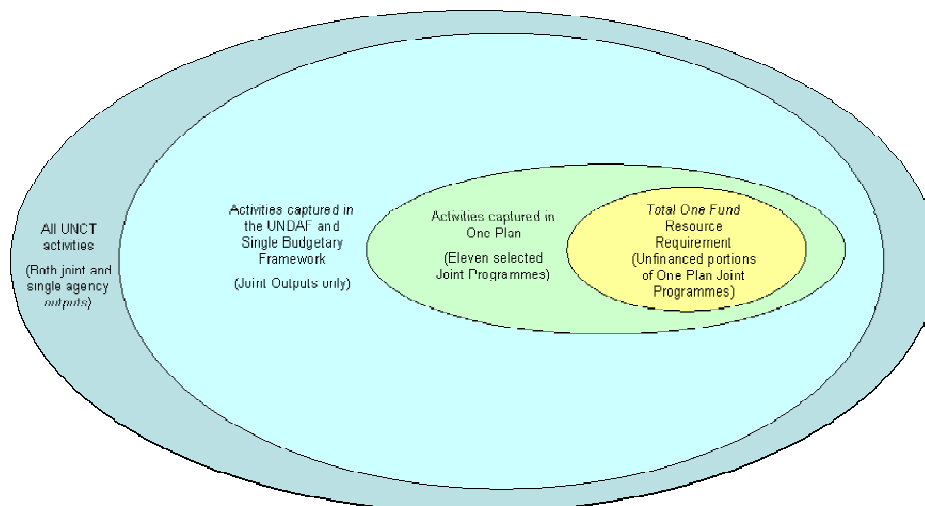
5.2.1. Mozambique

82. The UN in Mozambique comprises nine resident agencies (including UNAIDS) and eleven NRAs channelling around US\$88 million per annum (around 4.8% of total ODA). The UNCT in Mozambique is well advanced with the design and implementation of 'One UN Plan' and One Budgetary Framework, and the structure of the proposed arrangements closely follow the UNDG guidelines. In contrast to Vietnam (see below) and in line with the processes in Pakistan and

Tanzania, the One UN Pilot process in Mozambique has sought to include of all resident and non-resident agencies (NRAs). Early indications are that this is particularly challenging for NRAs, with substantial effort invested in trying to involve them in the process, and that this is proving difficult to address from country level given the number of agencies involved.

83. The overall model for UN reform is set out in an Operational Plan (UN, 2006), which establishes the One UN Plan as the driving force behind the Mozambique Pilot initiative, accompanied by a 'Joint Resource Mobilisation Strategy', 'One UN Budgetary Framework' and 'One UN Fund'. The UNDAF (2007 - 2009), comprising an estimated 90% of UN programmes in Mozambique, forms the basis for the One Plan.¹⁵ The One UN Plan is not identical to the UNDAF though: it is a sub-set of eleven of the joint programmes included in the UNDAF. This is because Mozambique was nominated to join the One UN Pilot initiative at a time when the UNCT had just completed its UNDAF programming (in line with the Government planning cycle). It was therefore more feasible to focus on a reduced set of joint programmes in the One Plan, with a view to adopting a more comprehensive approach during the next UNDAF cycle. Overall then, the UNDAF forms the basis of the One Budgetary Framework and the sum of the unfunded portions of the One UN Plan joint programmes provide the total estimated One Fund resource requirement (see Figure 11).

Figure 11: Stylised Representation of Coverage of One UN Instruments in Mozambique



Source: Adapted from UNCT Mozambique (2007).

84. The One Budgetary Framework will comprise RR and OR funding for the common outcomes identified in the UNDAF – i.e. it includes the activities identified in the One Plan but will be broader, also covering activities that are in the UNDAF but were not captured in the One UN Plan (UNCT Mozambique, 2007). In this respect the Mozambique model differs from the UNDG guidelines. The Framework will be broken down according to three different categories: (i) RR of participating UN agencies; (ii) available and committed/firmly pledged OR from all sources (bilateral, multilateral and private); and; (iii) the funding gap (to be updated regularly). As of August 2007, approximately US\$59.5 million of the total of US\$113 million was yet to be mobilised – i.e. around 52% of the total requirements of the One UN Plan joint programmes.

85. The One Fund aims to support the coherent resource mobilisation, allocation and disbursement of donor resources amongst the respective joint programmes identified in the One UN Operational Plan. It will also finance One UN Change Management initiatives in Mozambique (including a 'fifth One': Communicating as One). It will therefore collate new resources pooled by donors to finance

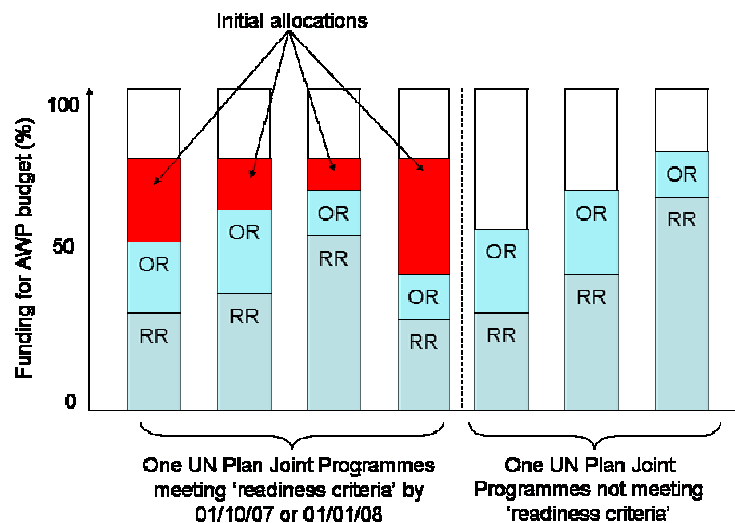
¹⁵ The UNDAF only includes joint outputs for which two or more agencies are responsible. Thus, some outputs which are the responsibility of only one agency (e.g. some refugee related outputs that UNHCR delivers) are not included. The 90% estimate was provided in an interview with the Mozambique RCO.

the unfunded part of the One UN Plan joint programmes as well as financing the internal costs associated with transformation to a One UN approach.

86. The pass-through mechanism is used to manage the fund, with UNDP acting as AA. Unearmarked multi-year commitments to the Fund are encouraged, although earmarked donations can be accepted by the UNCT with the expectation that the share of unearmarked funds will diminish over time. A One Fund Account receives contributions (in fully convertible currency) which are converted to US\$ using the UN operational rate of exchange in effect on the date of the payment, and UNDP receives the funds and makes contributions or payments to participating UN agencies as soon as possible once donor funds and instructions from UNCT are received. Each donor signs a standardised Letter of Agreement (LoA) with UNDP and the RC, establishing terms and conditions for receipt and administration of contributions. Participating UN agencies also sign MoUs with UNDP, setting out terms and conditions for receipt and use of funds. The participating UN agencies are entitled to charge their direct and indirect costs to the One Fund on the basis of their financial regulations and rules, with the latter capped at a maximum of 7%. Financing channelled through the One UN Fund therefore faces a maximum cost recovery fee of 8% once the 1% AA fee is included.

87. Management of and resource allocation decisions for the Fund are undertaken by the RC in consultation with the UNCT. The RC also leads fundraising for the One Fund, in collaboration with participating agencies. The Joint Steering Committee is informed of progress and results and provides guidance to the process. Ultimately, the RC is accountable for the overall efficient management of the One UN Fund and the utilisation of the funds in the One UN Fund account. Representatives of participating UN agencies are responsible for the implementation of the joint programmes and are held accountable to the RC for utilisation of Fund resources allocated to their agencies, implementation of their respective components and achievement of results. The AA: (i) receives, administers and manages contributions from donors; (ii) disburses funds in accordance with agreed AWP; (iii) provides consolidated narrative and financial reports on the One UN Fund Account to the RC on the basis of reports from participating agencies; (iii) provides a Sources and Uses of Funds financial report, and; (iv) consolidates key audit recommendations received from the auditors. The RCO provides support to the RC's responsibilities and also undertakes analysis of progress and lessons to inform future programming.

Figure 12: Initial Allocations of One UN Fund in Mozambique



Source: Adapted from UNCT Mozambique (2007).

88. In resource allocation, the Mozambique model opts for a formula-based system, which seeks to avoid forcing the RC and UNCT to prioritise programmes based on value judgements (although it should be noted that such judgements are impossible to avoid: the select list of 11 joint

programmes in the One Plan is already the result of a substantive prioritisation process). In a first phase, in order to be considered for eligibility, unfunded joint programmes in the One UN Plan must meet the “readiness criteria” which include: (i) a finalized Joint Programme Document; (ii) a Results Framework; (iii) an M&E Plan; (iv) an AWP; (v) Annual Performance Benchmarks, and; (vi) a letter of support from the counterpart Ministry. All joint programmes which the UNCT adjudges to have met the readiness criteria by the two annual deadlines (October 1st 2007 and January 1st 2008) then receive an initial allocation from the Fund. These initial allocations distribute funds in proportion to the unfunded balances in the respective joint programmes’ AWP. Thus, funds are allocated amongst programmes meeting the readiness criteria so as to equalise the percentage funding shortfall for their annual budgets – see Figure 12 for a graphical representation.

89. Subsequent to initial allocations there will be six monthly Performance-Based additional allocations (on July 1st and January 1st of each year), based on progress towards annual Performance Benchmarks (as summarized by the lead agency for the joint programme in a standardized one-page form). The analysis is then reviewed by the UN M&E Reference Group and forwarded to the UNCT for endorsement. “Satisfactory” progress earns the joint programme an Additional Allocation following the same formula used for initial allocations. “Unsatisfactory” programmes will not receive additional funds, but may apply again in six months time. Intra-programme allocations will be decided by joint programme Lead Agencies on the basis of the AWP and in collaboration with participating agencies and with the endorsement of the RC.

90. Audit is the responsibility of participating UN agencies in accordance with their internal rules and procedures. Participants are encouraged, where feasible, to adopt the Harmonised Approach to Cash Transfers (HACT) and to align their financial reporting requirements and assurance activities with those of organisations currently implementing HACT in Mozambique. The AA (UNDP) and RC are subject to UNDP internal and external auditing procedures.

91. In reporting, participating UN agencies provide the AA with: (i) annual financial reports as of December 31st each year for funds disbursed through the One Fund Account (within four months); (ii) annual progress report on implementation of One Un Plan joint programmes (within three months of the end of the applicable reporting period); (iii) final financial report after completion of the programme (by 30th April of the year following financial closure of the programme), and; (iv) A final certified financial statement (by 30th June of the year following financial closure of the programme).

92. Unutilised balances continue to be held in the One UN Fund Account until all commitments and liabilities incurred in implementation of the projects/programmes have been satisfied and project activities have been brought to an orderly conclusion. Any balance remaining in the One UN Fund Account or with participating agencies accounts shall be used as decided by the UNCT in consultation with contributing donors and participating UN agencies.

5.2.2. Vietnam

93. The UN reform effort in Vietnam predates the HLP – SWC: a key initial step was the publication of a joint discussion paper by the RC and UNICEF Resident Representative in 2005 (Ryan and Morch, 2005). It is a process characterised by strong Government leadership with the aim of improving aid effectiveness. With twelve resident agencies and two NRAs delivering around US\$70.9 million per annum or 1.6% of total ODA to Vietnam, the UNCT clearly needed to adopt a more coherent and strategic approach.

94. Reform in Vietnam has also developed in a relatively incremental manner. Of the twelve resident agencies, six are currently participating in the One Plan Fund in Vietnam: UNDP, UNICEF, UNFPA, UNV, UNIFEM and UNAIDS. These agencies will have Country Directors rather than Representatives under the One Plan (2006 – 2010), which was launched on 12th June 2007 (GoV *et al.*, 2007). Of the other agencies engaged in Viet Nam, 4 have written letters of intent to join the ‘One Plan’ by 2008. Amongst in-country donors, Norway, the UK, New Zealand and Ireland are actively supportive of the process, there is a middle tier of ‘like-minded’ donors who are broadly supportive and a third group of donors such as Japan and the USA who are not involved.

95. The One Budget in Vietnam aims to consolidate all participating agency budgets into a single budget sheet encompassing all present and predicted resources, i.e.: core resources, funds already raised in-country, as well as a One Plan funding gap (estimated at US\$92 million over the full five years and US\$33 million over the period July 2007 – December 2008). Participating agencies retain the right to raise funds outside the One Plan.

96. A One Plan Fund will be used to mobilise funds to finance the One Plan funding gap, with donors encouraged to provide unearmarked funding, although outcome level earmarking is possible. No firm financing commitments have been made as yet, but a joint donor assessment recommended full unearmarked funding for the first eighteen months (i.e. to December 2008) and initial indications are that around US\$19 million of the US\$33 million requirement for the first 18 months will be available (thereby requiring further prioritisation amongst One Plan activities by the RC and UNCT). The UNCT is also seeking financing for a separate US\$3 million Change Fund and a US\$5 million One House fund, outside the One Fund.

97. The Vietnam Pilot experience has encountered particular difficulties in integrating the Specialised Agencies. In June 2007 this culminated in a concerted effort by a number of them (UNIDO, WHO, FAO, ILO, UNESCO), with approval from their respective HQs, to delay the development of the One Plan on the grounds that they had been excluded from the process (which most observers, including GoV, did not feel to be the case). While this issue has now been resolved and a number of the SAs have committed to join the process in 2008, it has flagged some of the difficulties involved in engaging Specialised Agencies, and in particular their alignment with the different planning and budgeting processes of the ExCom agencies which have been working to align their procedures for a number of years (SAs operate on a biennial budget cycle for example).

5.2.3. Implications of Pilot Country Experience for Malawi

98. Recent experience in Pilot countries provides a number of lessons for the establishment of a single budgetary framework in Malawi. The Mozambican case represents an interesting model for consideration, especially since it has been developed to such an advanced stage and includes all resident and non-resident agencies, as Malawi has sought to do in its reform efforts to date. It also illustrates one of the difficulties of a highly inclusive approach, with NRAs proving difficult to fully involve in the process. The Mozambique process also illustrates the coordinating role that the Southern Africa RDT could play in helping to support the Pilot process (see Section 6). However, there are difficulties in drawing direct parallels between Mozambique and Malawi because of the differences in the nature of their respective 'One Plan' documents (Mozambique's comprises a selection of 11 joint programmes due to the timing of the One UN pilot process vis-à-vis the UNDAF cycle, while Malawi uses the entire UNDAF document) and in the availability of local (in-country) donor financing – which is much more substantial in Mozambique than in Malawi – as a potential source of unearmarked One Fund financing.

99. Vietnam's experience indicates that progress on One UN reforms is easier amongst the ExCom agencies that already have a long tradition of working together on harmonisation of procedures prior to the HLP – SWC and the Pilot process and that integration of the Specialised Agencies, which have less experience of working in a harmonised way and have different can be harder to achieve.

100. Common to both examples presented above is the degree to which reform has relied upon UNCT initiative. Even after it receives Pilot status in 2008, Malawi will need to rely on consensual reform in-country – as Mozambique and Vietnam have – to arrive at a country-specific solution to UN reform, with limited support from HQ level. Both Pilots have also established a separate set of 'transformation' activities to be financed in parallel to their development programme. In Mozambique these are to be financed through the One UN Fund while in Vietnam these activities are to be financed through a separate Change Fund, mirroring the UN Transformation Fund established in Malawi.

5.3. Feasibility of a Single Budgetary Framework in Malawi

101. The UNCT has clearly set out its intention to establish a single budgetary framework in Malawi: the UN Business Plan includes as a specific output, *'to have developed and implemented a single budgetary framework for the UNDAF 2008 – 2011'* (UN, 2007b). This Section seeks to assess the feasibility of such a reform, identifying potential constraints and factors to be taken into consideration in designing such a framework.

5.3.1. Programming, Budgeting and Reporting Among UN Agencies

102. In thinking about programming, budgeting and reporting it is useful to distinguish between instruments with short-term (i.e. annual) timeframes and those with a medium-term (i.e. three or more years) time horizon. Examples of the former include AWP and cluster AWP, while examples of the latter include the UNDAF, CPDs, CPAPs and cluster CPAPs.

103. For medium-term instruments, alignment of UN agency programming, budgeting and reporting cycles has been improved dramatically in recent years. The agencies have made a strong effort to harmonise their medium-term programming cycles around the the four year UNDAF period (2008 – 2011). Alignment of the programming cycle with GoM is also good, with the UNDAF aligned to the MGDS cycle (although the next UNDAF will presumably need to extend its lifespan from four to five years to stay in step with the next MGDS, which will run from July 2011 until June 2016).

104. UN agencies have invested substantial efforts in medium-term alignment, with the UNDAF as the central document: UNICEF for example had a bridging year in 2007, publishing a one year CPD, in order to align with the UNDAF programming cycle. The resident Specialised Agencies, FAO and WHO, both produced Malawi specific 'shadow' CPDs in order to establish estimated priorities and associated resource requirements for the UNDAF period. CPDs (which provide a brief description of the proposed country programme over the UNDAF period) are normally only produced by each ExCom agency for submission to their respective Executive Boards for approval. This was done over and above their internal reporting requirements.

105. While WFP is an ExCom agency, it does not produce a CPD because it is officially considered to be a 'humanitarian' agency (in contrast to the other three Excom agencies which officially have a 'developmental' focus). Its formal instruments reflect this humanitarian emphasis, with a more project specific focus than those of other ExComs. However, at country level WFP does undertake developmental activities in Malawi, financing and implementing an extensive school feeding programme. It has worked to ensure that these activities are captured in UN-wide development programming, actively contributing to the UNDAF/One Programme process by working closely with the RCO to match specific projects with different UNDAF areas and linking resources to the UNDAF resource framework in a similar manner to the 'shadow' CPD process undertaken by the resident Specialized Agencies. It should also be noted that WFP is strongly contributing to the UN reform process more broadly, taking the lead in the Enterprise Application Integration (EAI) process for example (see Section 3.3.3).

106. There is however a dual programming process in operation: in parallel to those required for the UNDAF process (i.e. cluster CPAPs), agencies also produce internal medium-term programming instruments. UNDP, UNICEF and UNFPA produce their own CPAPs while WHO produces a five-year Country Cooperation Strategy. In order to address potential inconsistencies generated as a result, the RCO organised an UNDAF-CPAP alignment retreat in August 2007, in which all clusters reviewed the Excom CPAPs against their cluster outcomes, as well as specific ExCom agencies' contributions. This helped to improve the alignment between CPAPs and their respective UNDAF clusters.

107. In terms of short-term or annual instruments, programming is highly programme and project-based. Each agency develops a number of different Annual Work Plans (AWPs) with their respective institutional partners – for example UNDP will have around thirty separate AWP in 2008. These documents are the primary basis for financial and narrative reporting within agencies. Partly as a result of this fragmented approach to budgeting and financial reporting, building an

accurate picture of overall UN finances in Malawi, both in terms of forward looking projections of likely spending and in terms of backward looking reporting on executed expenditures, is very difficult, for both the medium- and (more markedly) the short-term.

108. There is only limited published material on agency spending, and this is typically more focused on areas of expenditure rather than sources of finance – i.e. central vs. local level and RR vs. OR. This is related to the fact that financial reporting is strongly tied to individual projects and programmes. Factors such as different terminology, diverse sources of finance, in-year adoption of projects (particularly later in the year when donors often seek to spend residual finances) and different accounting systems all add to difficulties in producing comparable financial data from different agencies.

5.3.2. Aligning with GoM Reporting Requirements

a. GoM Reporting Requirements for Donors

109. The principles of ownership and alignment require that donors provide the MoF, which seeks to monitor all donor support to Malawi, with accurate and timely data on funding flows to Malawi. The MoF distinguishes between: (i) aid channelled through government systems, for which both activities and finance are managed by a GoM institution; and (ii) projects whose activities or finances are not directly managed by a GoM institution. The former is captured in the GoM budget while the latter are captured in the Summary of Project Support Managed Outside Government Systems (GoM, 2007). GoM is seeking to reduce the volume of funding that is administered outside government systems. K15.3 billion (US\$112 million) was expected to be disbursed in this way in 2007/08 or 23% of total expected project support from donors (not including GBS and pooled funding).

Table 3: GoM Reporting Requirements for UN Agencies¹⁶

Periodicity	Requirement	Deadline for Submissions	For Inclusion in
Monthly	- actual disbursements in previous month by project for the in order to meet IMF PRGF reporting requirements - revision of other actuals if necessary (in red type)	- 15 th of the following month	- DAD MoF Database - submissions to IMF under PRGF
Quarterly	- confirmation actual disbursements for the previous quarter?	- 15 th of the following month	- DAD MoF database
Mid-Year	- actual disbursements for the first half of the current GoM Financial Year	- 15 th January	- DAD MoF database - Mid-Year Debt and Aid Report
Annual	- quarterly disbursements for the previous GoM Financial Year - annual projections for the forthcoming GoM Financial Year - quarterly projections for the forthcoming GoM Financial Year	- 31 st July	- State Budget - Summary of Extra-Budgetary Support to Malawi
		- 15 th July (first round of data) - 31 st July (corrections and verifications)	- DAD MoF database - Annual Debt and Aid Report

Note: For future Mid-Year and Annual Debt and Aid reports, MoF – DAD may revise deadlines as these reporting processes are still at an early stage.

Source: MoF – DAD interview.

110. Thus as well as developing the DAS the MoF – DAD, together with donors, is striving to improve the reporting of aid with the aim of promoting compliance with the letter and spirit of the Paris Declaration. Data collected by MoF – DAD is collated in a Debt and Aid Database and used for: (i) reporting to the IMF under the PRGF; (ii) the MoF – DAD Mid-Year and Annual Debt and Aid Reports; (iii) the State Budget and associated Summary of Extra-Budgetary Support to Malawi. The information is also used for project monitoring, using the fiscal information as an indicator or whether the project / funding stream is moving smoothly. If it is inactive or erratic, the relevant desk officers should investigate further to ensure that delays do not derive from Government failures.

¹⁶ All project data must be broken down according to: (i) whether funding flows to GoM or an NGO; (ii) sources of finance (i.e. when a project is jointly funded by more than one donor), and; (iii) whether it was included in the previous years budget. Figures should be provided in the donor currency or an alternative currency (e.g. US\$) if the funds were/will be provided in this alternative currency

This kind of project monitoring is not yet fully functional, but its definitely one of the key reasons we collect monthly data.

111. The coverage of aid in GoM documents has been steadily improving in recent years – from a position of partial coverage in the 2005/06 budget through to a much more comprehensive picture in the 2007/08 budget for example. Many challenges still remain however: even where donors are able to meet MoF - DAD financial reporting requirements perfectly there can be difficulties in translating this information accurately into the budget. This is due in part to as yet unreconciled differences between the three separate GoM aid recording databases (MoF – DAD, MoF – Budget Division and MoEPD). A further problem is that sector ministries are not yet clear as to how development support should be reported to the budget division, and this can lead to inconsistent treatment of project support. The budget guidelines for the 2008/09 budget will be updated to address this issue. Table 3 summarises the principal financial data reporting requirements for UN agencies to the Ministry of Finance.

a. Reporting to GoM by UN Agencies

112. In general, some agencies – particularly the larger ones – have stronger records than the others in meeting annual, quarterly and monthly reporting requirements. UNDP was the only agency included in the 2005/06 annual report on Aid and Debt in Malawi. The 2006/07 Mid Year Debt and Aid Report is much more comprehensive: it covers UNDP, UNICEF, WHO, WFP, and FAO.

113. For the 2007/08 budget, as a very rough estimate, around 80 – 90% of relevant UN projects (i.e. financial administration and implementation done by GoM) were captured, although difficulties still remain – some WHO projects have not been included for example. As an example of the challenges represented in reconciling UN programmes with GoM requirements, agencies have had particular difficulties in breaking down spending between funds channelled to GoM against funds channelled to NGOs for strongly cross-sectoral interventions with diverse national partners.

114. Particular difficulties encountered by the UN agencies in reporting include: (i) failure to report in a timely manner, particularly monthly actual disbursement data which is a requirement under the IMF PRGF; (ii) difficulty in adjusting projections to the GoM Financial Year (July – June) from the UN calendar year (January – December) programming cycle;¹⁷ (iii) difficulty in producing annual and quarterly projections in time for inclusion in the State Budget and quarterly projections for use in PRGF and internal monitoring (i.e. by end February/March each year – figures are required well in advance for inclusion in budget framework and other calculations), and; (iv) difficulty in breaking projects down by GoM and NGO recipients.

5.3.3. Predictability and Redirectability of Funding

115. Donor agencies indicated that they were, in general, able to commit funds in advance to programmes over the four year UNDAF period. Although these commitments were subject to the caveat that approval from domestic legislatures would be required, based on historical trends they did not believe this would hinder predictable multi-year commitments. There was also considerable discretion afforded to country offices in terms of the duration of projects to which they could commit.

116. Regarding UN agencies, unpredictability of funding is a key issue, particularly in the light of agencies' increasing reliance on earmarked OR financing and the declining performance of (more predictable) RR financing as illustrated in Figure 7 above. When programming, many UN agencies typically make needs-based estimates of their resource requirements for future years and then seek to fundraise up to (and beyond) these amounts. Some agencies are more successful than others in this regard, with some routinely raising and often exceeding their budget ceilings and others having a 'structural' shortfall that recurs to varying degrees year on year, which can be very high for some agencies. Even for successful fundraising agencies there is still a degree of

¹⁷ GoM actually attempted to convert its financial year to the calendar year in 2006/07, getting as far as producing a draft six month interim bridging budget. However, this proposal was blocked by parliament and GoM remains on the July – June cycle for the foreseeable future.

unpredictability – UNICEF had twice applied to its Executive Board in 2008 to increase its budget ceiling in order to accommodate additional funding that was made available in-year.

117. On redirectability of funds, the nature of existing commitments for all donor interviewees was such that local financing committed to existing UN programmes could not be redirected towards One Fund. Any funding channelled towards One Fund would need to be either additional financing over and above existing commitments or involve funds becoming available once existing commitments are completed.

5.3.4. Provision of Finance to One Fund

118. A common thread that emerged from most interviews is that donor willingness to finance the UN system was very closely related to their perceptions of three criteria: (i) the appropriateness of the UN's strategic positioning (i.e. the areas in which it chooses to be active and inactive); (ii) its effectiveness in delivering results against its stated objectives, and; (iii) the efficiency with which it implements its programmes. The performance of the UN is perceived by donors as being variable against all three criteria across the different resident and non-resident agencies. Thus, there was a strong emphasis on the need for the UN as a whole to show demonstrate clearly the delivery of results over a sustained period and to improve its conformity with the Paris Declaration as a way of guaranteeing continuation of existing earmarked local financing and also as a necessary precondition before any unearmarked local funding would be made available.

119. Most donors also viewed aligning with GoM and supporting the MGDS as their primary role. Support to UN reform *per se* therefore receives considerably less emphasis. Rather, specific UN agencies were identified as useful partners given their strong perceived performance in areas where donors had programmed activities but lacked capabilities in-house. Good inter-agency working relations (often dependent on the personalities involved) were also cited as an important factor in the decision to channel funding through the UN.

120. Overall, a key limiting factor to the provision of unearmarked funding in Malawi in support of One Fund is the fact that in country financing flows from donor country offices to the UN system in Malawi are not very large (as discussed in Section **Error! Reference source not found.** above). Donors also indicated that *additional* funding (over and above existing levels) in support of UN reform would be unlikely in the medium-term. This is more conditional on perceptions of the effectiveness of the UN than the existence of One Fund.

121. Despite these general observations, there was marked variation across donor agencies regarding willingness to contribute unearmarked funding to a One Fund joint fundraising exercise. Table 4 below briefly summarises the different positions of those agencies interviewed, illustrating that a number of agencies cannot provide unearmarked local finance to the UN at present due to their respective internal procedures (AfDB, EU and USA). Canada and the Netherlands (a non-resident agency) are able to do so in theory but have relatively small programmes in Malawi with limited local financing to the UN system and limited discretion at country level regarding the decision to provide such unearmarked financing. Norway is already one of the largest providers of earmarked local finance to the UN system in Malawi and could in theory provide unearmarked funding (as it is doing in Mozambique for example) although it was indicated that this is not likely in the short-term to medium-term.

122. The UK is both able and provisionally willing to provide unearmarked local financing, although this is strongly premised on marked improvements in delivering and demonstrating results by the UN. It should be noted that UK procedural requirements make providing finance through the UN pass-through funding mechanism challenging. In order for the UK to provide finance through this mechanism – as described in Annex H of the UNDG guidance note – it needs to be adapted somewhat. It is however regarded by the UK as a 'good basis' for a One UN Fund arrangement and an amended version, which has already been drafted for use in Vietnam, can be used.

123. Ireland is currently in the process of establishing an Irish Aid country office in Malawi. The recently developed Irish Aid UN Strategy (2007) proposes continued support to funds and programmes combined with greater engagement at policy-level for increased multilateral

coherence and deepened engagement with funds and programmes in country, including through support to the One UN initiative. Further, Irish Aid has no procedural constraints to providing financial support for the One UN Initiative - and is in fact doing so in Vietnam (with discussions also underway in Mozambique and Tanzania). An assessment will shortly be undertaken to determine whether and how the new Irish Aid programme will provide support to the One UN Initiative in Malawi.

Table 4: Donor Willingness to Finance the UN in Malawi¹⁸

Donor	Position
AfDB	Unable to pool funds under present internal procedures
Canada	Able, but provides very little local level UN finance
European Union	Unable under present internal procedures
Ireland	Able, and willing, subject to result of current assessment exercise
Netherlands (non-resident)	Able, but requires HQ consultation (non-resident)
Norway	Able, but prefers to retain earmarking in medium-term
UK	Able and willing, given certain assurances from UN
USA	Unable under present internal procedures

Source: Field interviews.

5.3.5. Cost Recovery Rates

124. Cost recovery rates present a challenge to the establishment of a single budgetary framework as the additional 1% fee charged by any Administrative Agent would mean higher combined cost recovery rates and could potentially act as a disincentive for donors and participating UN agencies alike to channel funds through One Fund. There is also a secondary concern relating to the desirability of harmonised cost recovery rates across the UN agencies in Malawi as a means of simplifying joint fundraising, programming and reporting within one budgetary framework.

125. The former issue is a key constraint for some donors (particularly those imposing caps on combined cost recovery rates) while for others it was not cited as being of central importance. The EU for example has negotiated an agreement with the UN at HQ level such that cost recovery rates for all EU-financed UN projects are capped at a maximum of 7%. This would obviously mean that any earmarked EU-financing to the One Fund (the EU could not at present provide unearmarked finance) could only be for projects with a cost recovery rate of 6% or less before inclusion of the AA fee. Some agencies' policies already accommodate the necessary 1% reduction in fees to allow for joint programming using the pass through mechanism. On the other hand, some donor respondents indicated that an additional 1% fee would be an acceptable price to pay for the potentially greater coherence in UN programming, fundraising and reporting that providing finance (earmarked or unearmarked) through One Fund might provide.

126. Regarding harmonisation of cost recovery rates amongst participating organisations, there is in theory a harmonised cost recovery rate of 7% for the OR of ExCom agencies while other agencies' rates vary. However, in practice even for the ExCom agencies in Malawi, the 7% harmonised rate is more of a norm than a hard and fast rule, with rates varying from as low as 1% to as high as 10% for some programmes. Table 5 presents an overview of findings regarding cost recovery rates on the basis of field interviews together with some desk-based research. While it does not pretend to be exhaustive, it does give an impression of the variability of rates across some agencies.

127. Harmonisation of rates amongst non-ExCom agencies is not something that can be addressed at country level, as agency policies on cost recovery rates are set at HQ level. The ExCom agencies would need to take an explicit decision in the context of the establishment of a single budgetary framework as to whether the benefits of sticking to a harmonised rate

¹⁸ This Table reflects all donor agencies covered in field interviews.

(simplification, transparency, coherence) would outweigh the associated costs (rigidity, conflict with donor caps for pass through funding).

Table 5: Cost Recovery Policies for Interviewed UN Agencies

Agency	Cost Recovery Rate Findings ¹⁹
UNDP	Typically 7% agency wide, although can vary at the discretion of the country office, with rates of up to 10% for some programmes in Malawi.
UNICEF	Typically 7% agency wide, although can vary, with rates of up to 8 or 9% for some programmes in Malawi. Country office does not have discretion over this.
UNFPA	Typically 7% agency wide, although can vary downward, with rates as low as 4% and 1% for some programmes in Malawi.
WFP	7% agency wide 'Indirect Support Cost' (ISC) on all contributions. Do not have 'Variable Indirect Cost' category and undertake full cost recovery.
FAO	Typically 7% agency wide 'Support Costs', although can vary, with one example of a 9% rate being applied.
WHO	13% agency wide 'Programme Support Cost', set at 6% for emergency programmes. Country office does not have discretion.
UNAIDS	Has coordinating role rather than implementer of programmes

Source: Field interviews and desk-based research.

5.3.6. Management Arrangements: Accountability, Prioritisation & Fundraising

128. There was strong agreement amongst interviewees that GoM should have a central role in the governance and accountability processes surrounding the single budgetary framework, with UN reporting to GoM channelled through the RC. At the same time, it was recognised that key officials within GoM are already dealing with very heavy workloads and that arrangements should build on existing structures and be designed so as to minimise the administrative burden placed on GoM employees. Interviewees suggested that one possible way to achieve this would be through the use of the JUSC, which was established to help formulate the UNDAF but has subsequently not met. It was also suggested by some respondents that other donor agencies and civil society actors should also be consulted so as to ensure harmonisation of UN activities with those of other in country donors and NGOs.

129. As regards the prioritisation process, there was a strong consensus amongst UN agencies around the use of the UNDAF clusters as a primary basis for prioritisation on unfunded Country Programme Outputs. This would help to reinforce the importance and use of the cluster structure and place initial prioritisation decisions in the hands of those best informed about the needs in a given sector. It was also agreed that the RC and UNCT could play a role in a second round of prioritisation, although the details of how that would work were less clear. As with the overall accountability framework, many UN agencies also suggested that GoM involvement in the prioritisation process would be important. It was argued that this would both serve to ensure that UN priorities are regularly realigned with those of GoM over the MGDS/UNDAF period and to take some of the controversy out of prioritisation decisions.

130. There was less of a consensus among donor and UN agency interviewees as to whether the UN should present a unified front for joint fundraising. Many emphasised the benefits that operating in a more strategic and streamlined manner would provide in terms of overall coherence and time commitment from both the UN and donors. However, other respondents stressed the important role played by personalities in the fundraising process and the importance of not making the process unduly inflexible and bureaucratic. Further, across UN agencies there are somewhat different approaches to fundraising, with some agencies regarding all programmatic staff as playing a crucial fundraising role and others seeing fundraising as something primarily done by regional and global tiers of their agencies. There is already at least one example of successful joint fundraising lead be the RC in collaboration with the relevant cluster convener and this approach was widely seen as providing a viable option for consideration.

¹⁹ The term 'cost recovery rate' refers to the percentage fee levied by agencies on OR with a view to full or partial recovery of Variable Indirect Costs, which are essentially the same as Programme Support Costs

5.3.7. Role of RCO: Firewall and Capacity Requirements

131. UN agencies and donors interviewed indicated that were there to be a strong role for the RC in the prioritisation of unfunded activities, joint fundraising and the allocation of unearmarked resources amongst those activities, a 'firewall' between UNDP and the RCO would be necessary. This would help to avoid the perception or practice of favouritism towards UNDP by the RC, particularly if the RC were to become a 'vote holder' with the power to allocate funds. It would not necessarily mean that UNDP could no longer continue to host the RCO. It would however mean that the current practice of "double-hatting" whereby the RC is also the Resident Representative would need to be re-examined. One option would be for the appointment of a UNDP Country Director, although it remains to be seen whether this is a viable option. The move has already been requested on two previous occasions and each time was turned down.

132. The current model for the RCO's office, as set out in the UNBP, includes six posts (including the RC). Within this team, the recently appointed Coordination Specialist will support UNBP work stream 7 – Single Financial Framework and Joint Resource Mobilisation – and is therefore of central importance to the introduction of a single budgetary framework. The southern Africa RDT strongly urged that there should not be a large expansion in the size of the RCO in support of UN reform, citing the example of the Mozambique RCO where the only specialist appointment in support of the delivery of the Four Ones has been an M&E specialist. This is consistent with the strong position expressed by many donor interviewees that the UN should seek to address new tasks and responsibilities through the reallocation of existing staff rather than through the recruitment of additional personnel: for donors, UN reform should be a process undertaken by existing staff, if anything delivering clear efficiency savings. The forthcoming Skills and Competencies Assessment, which aims to '*reduce overlap and realign agency skill sets allowing for focussed, efficient and effective delivery of the outcomes defined in the UNBP*' (UN, 2007b) should provide a good basis for any reallocation of staff to strengthen UN reform efforts in Malawi.

6. Summary and Recommendations

133. In summary, in-country donors want to see the UN strongly harmonised and aligned with GoM in conformity with the provisions of the Paris Declaration, coupled with a strong and transparent performance in delivering results. These are considered to be essential preconditions for the continued local financing of the UN in Malawi and, in particular, for those willing to provide unearmarked funding through a One Fund arrangement. Most likely these would not be additional resources but rather would involve a re-prioritisation within existing envelopes.

134. There has been good progress in improving the results focus of the UN system in Malawi in recent years. In particular, there is now a single and comprehensive strategic framework (the UNBP) and One Plan for the UN over the medium-term in the form of the UNDAF with a clear Results Matrix and M&E structure associated with it. There have been considerable efforts to align programming and working arrangements around the UNDAF clusters, with joint working between UNDP, UNICEF and UNFPA to harmonise their CPAPs with one another and ensure alignment with the UNDAF. Incentives for staff to work within cluster rather than agency structures have also begun to be introduced. The UNBP provides an overarching framework for the UN reform process, with a clear mapping of responsibilities and actions for transition towards the One UN model in Malawi.

135. In introducing the single budgetary framework, Malawi is likely to encounter a number of agency-specific legal and procedural barriers that can only be addressed in collaboration with HQ level. Early experience in Mozambique and Tanzania suggests that these are likely to be similar across many Pilot and reform-minded countries and that it is proving particularly challenging to address them in a coordinated manner from country level. The Southern Africa RDT, an organisation still finding its role in the One UN process to some extent, could therefore support reforming UNCTs by identifying vertical constraints that are common to many southern African countries and raising them collectively with HQs and regional offices, as well as disseminating best practice in addressing them. This might, for example, include specific procedural difficulties encountered by specific agencies (particularly non-resident SAs) in participating in the One UN process (e.g. in signing up to an MoU with UNDP) or by specific supporting donors (e.g. in the treatment of unspent funds in One Fund and the legal wording of LoAs). This could lower the administrative burden on both RCOs and agency HQs by reducing the number of bilateral problem solving exercises and facilitating participants' access to solutions.

136. There are a number of reasons to believe that Malawi is also in a strong position to advance further on the reform agenda at country-level. As with the more advanced Pilot country example of Mozambique (and unlike Vietnam, the other case study presented here), Malawi has opted for an all inclusive approach by seeking to involve all resident and non-resident agencies in the reform process as 'participating agencies'. Further, the decision to include all UN activities in the UNDAF (rather than focusing solely on joint programmes) and to adopt the entire UNDAF as the One Plan (as opposed to choosing a smaller selection of activities within the UNDAF) provides a stronger basis for the introduction of a single budgetary framework. The production of 'shadow' CPDs by the resident Specialised Agencies (FAO and WHO) and the efforts of WFP to integrate its developmental projects and associated resources into the UNDAF clusters also shows the willingness of UN country offices to work around vertical intra-agency constraints in order to improve inter-agency country level coherence.

137. However, donors still perceive that there is considerable work required to improve the effectiveness and efficiency of the UN agencies. For example, as

Table 2 (in Section 3.3.1 above) illustrates, the UNDAF involves inputs from thirteen different agencies (including five NRAs) of which most are planning to intervene across a number of different clusters. This suggests that some agencies may be lacking a clear focus and that there may also be considerable overlap in the UN's activities in some areas. This is relevant because, as interview responses made clear, it is impossible to separate donors' financing decisions from their perceptions of UN agency effectiveness and efficiency. There are no specific recommendations on this issue here however: the forthcoming Skills and Competencies assessment is a better starting point for a full consideration of the issues involved.

138. There are also a very complex set of UN programming instruments in use at present resulting in considerable duplication of effort or 'dual programming'. Thus many agencies make extensive contributions to UNDAF programming at the same time as producing their own internal programming instruments. While the UNDAF-CPAP alignment retreat was an important step in promoting consistency between these instruments, the process could be considerably less onerous were permission granted by agency HQs for a single UN Malawi CPD and CPAP. A simplified process would promote inter-agency cohesion and provide a stronger basis for a single budgetary framework (though AWP would still need to be developed at agency level). However, this represents a constraint beyond the scope of the UNCT to address: it seems likely that individual agency-level CPAPs will continue to be used for the foreseeable future.

139. The UNCT should consider how best to manage its steering committee structure in order to best implement the principles of the Paris Declaration, particularly to ensure that government ownership is enhanced and UN programmes are aligned to the government priorities. In order to help to ensure that the UN reform process embeds these principles, the UN Business Plan Steering Committee (proposed in the UNBP) will need to play a central role, providing a high-level monitoring and accountability structure for overall delivery against the UNDAF Country Programme Outputs and helping to solicit input from key stakeholders – and GoM in particular – on the UN reform process. This should build on the structure of the existing Joint UNDAF Steering Committee (JUSC), which is not meeting at present.

140. The single budgetary framework should retain a 'light touch' philosophy, avoiding adding onerous reporting requirements to government, the UN agencies and their respective (sub-) national partners and should not require additional UN staff. This is particularly important given that there are not likely to be significant increases in the overall level of funding to the UN system in the short-term as a result of the exercise and that, as the RDT recommends, the RCO should not expand significantly in order to support the process. The framework should also build on and strengthen existing processes where possible, with the UNDAF cluster structure providing an obvious guide for the budget structure. However, there should still be clear and quantifiable links to agency specific programming instruments (such as the CPAPs). It should therefore be possible to disaggregate the budget by agency and by source of financing. This will help to ensure that the sum of agency AWPs equals the sum of the cluster AWPs and make it easier to ascertain what a given agency is committing to deliver across the UNDAF clusters. Learning from accumulated experience across the UN System, particularly in humanitarian fund management tools, may be very useful in informing this process.²⁰

141. The UNDAF and associated results matrix also remain very high level documents and the UNCT must develop a more detailed understanding of the resource requirements of the One Plan once the cluster CPAPs have been completed. Detailed costing of the UNDAF Country Programme Outputs would for example be very difficult and as a result the estimated UNDAF resource requirement (which currently stands at US\$337 million) is at best indicative. The additional detail required is provided by the associated cluster CPAPs and cluster AWPs. It will be important for the establishment of a single budgetary framework that the UNCT is able to revisit the

²⁰ The OCHA Financial Tracking Service (FTS), a global, real-time database which records all reported international humanitarian aid (including that for NGOs and the Red Cross/Red Crescent Movement, bilateral aid, in-kind aid, and private donations), was suggested as a possible model to examine. Unfortunately time did not permit a detailed consideration of the costs and benefits of implementing such a global model at country level.

overall resource requirement once the cluster CPAPs are produced, and again after the production of the cluster AWP, in order to have firmer cost estimates for planned activities. This is also important for results-based management and accountability – it is not realistic for cluster leaders, the UNCT and the RC to be held accountable for activities that were neither properly costed nor financed in the first place.

142. A single budgetary framework should be as comprehensive as possible, capturing the full developmental expenditures of all agencies in the UN system in Malawi. It should include all UNBP work streams, reflecting both programmatic expenditures (RR and OR) for the delivery of the UNDAF/One Plan (UNBP work stream 1) and UN Transformation activities (work streams 2 – 7, i.e. including the Transformation Fund). It should also provide a full and transparent picture of operational expenditures such as salaries (including those financed by RR). Since some agencies already pay some salaries from programme budgets, not including such operational expenditures would result in a partial picture of UN Malawi personnel costs. In this respect it would differ from the undg guidelines since it would cover more than just the One Plan programmatic expenditures. Only humanitarian expenditures should be exempted from the budget in line with the general operational distinction made between humanitarian and developmental expenditures within the UN system. The principle of a comprehensive budgetary framework was well received in discussion with the UNCT and is more in keeping with the recommendations of the HLP - SWC than with the undg guidelines – the latter tend to emphasise the coverage of the activities contained in the One Plan rather than all developmental expenditures in country (including operational and transformational expenditures).

143. In creating a budgetary process that involves a degree of discipline, it will be important to distinguish between budgetary ceilings as fundraising targets, and budgetary ceilings as best forecasts of available resources. Building in a distinction between RR, best estimates of OR (based on carry-over, 'pipeline' projects under development and firm pledges) and the associated funding gap would help to make this distinction more explicit (see Annex 4 for a possible reporting template provided in the undg Guidelines). The sum of RR and expected OR would be the budget ceiling, while adding the funding gap would give the total resource requirement. This would help to ensure that the budget forecasts take account of any 'structural' funding gap agencies may have, thereby making budgetary forecasts more credible. It would also strengthen programming in that it would be clear from the single budgetary framework at the beginning of the financial year what the RC and the UNCT were committing to deliver *within existing resources* and what outputs would require additional financing and therefore could be the focus of joint fundraising.

144. The single budgetary framework could be used to provide a comprehensive, integrated and transparent overview of planned and executed UN Malawi activities in a given year within the framework of the UNBP. At present there is no single forward-looking programming instrument for the UN in Malawi that presents *expected* resources (as opposed to resource needs) on an annual basis. Nor is there a single reporting instrument to demonstrate annual financial performance across the UN agencies. In order to improve the timeliness, comprehensiveness and accessibility of information about the UN in Malawi, the UNCT should consider publishing the single budgetary framework on an annual basis, showing the totality of expected resources – the budget constraint – for future years as well as total spending in previous years. Data could be disaggregated by cluster, by agency, and by economic classification (i.e. salaries, goods and services, transport etc.). This would clearly need the respective agencies to establish a commonly agreed system for classifying expenditures against each of these dimensions, perhaps through a relatively simple coding structure. Such a holistic instrument would also clearly demonstrate to donors that the UNCT is working to integrate its programming and reporting.

145. While humanitarian expenditures and activities are not explicitly included in the single budgetary framework, they do potentially have important impacts that should be taken into account in its design. Malawi's recent history has seen a number of humanitarian crises resulting from severe drought and associated food shortages. The UN is typically at the centre of the humanitarian response to such crises, managing large additional flows of humanitarian assistance (see Figure 8). In some cases it also redirects financial and human resources ordinarily engaged in

'developmental' activities to assist (often influenced by changes in GoM and donor priorities in such periods). This reinforces the need for a flexible and regularly updated single budgetary framework that remains a useful and plausible management tool during emergencies. Were resources to be diverted from developmental objectives targets would need to be revised accordingly for example. To allow for this, a six monthly review feature, allowing a stock take of mid-year performance and a revision of budgetary estimates, should be built into the process. This would ordinarily be a fairly light exercise but may assume much greater importance during emergencies. Quarterly reviews could also be considered for crises, but may add more costs (e.g. in terms of administrative burden) than benefits. Such mid-year reviews would also help to deal with general unpredictability in UN development spending.

146. Without adding additional personnel, a committee of the agencies' finance officers could perhaps be formed to help with the production of the single budgetary framework. As a first step, the finance officers could improve the management information available to UNCT by producing a retrospective picture of UN spending in Malawi for the past few years, breaking total agency spending down by central (RR and OR) and local financing. The UN could also demonstrate its stated commitment to delivery against the Paris Declaration by using such a grouping to help the UN to monitor and report performance with respect to the Paris Declaration baseline indicators. This might also involve making the formal channels for communication between UN agencies and the MoF - DAD more efficient and effective. One potential option to address this would be to try to align the compilation and reporting of financial data for the single budgetary framework with the GoM's reporting requirements for aid. This would hopefully ensure more timely, coordinated and accurate reporting from the UN system to GoM, would minimise duplication in financial reporting and help to strengthen the UN's compliance with the spirit of the PD. The committee of financial officers could ensure that the data are produced, collated and submitted on time, with one member officially designated as the main focal point, representing the UN system to the MoF in financial reporting. It could also provide a quality assurance role to standardise the quality of returns and support agencies with more limited capacity in meeting the MoF requirements. This could also help to demonstrate to funders the effectiveness of the UNCT.

147. Building a distinction between the budget ceiling and resource requirement into the budgetary framework will produce a clear and quantifiable financing gap. This raises the question as to what extent fundraising should be undertaken; by individual officers, by individual agencies, on a cluster basis, or by the UN as a whole in a joint fundraising approach? The very strongly decentralised nature of fundraising within the UN system at present means that it is clearly not possible to introduce joint fundraising for all unfunded activities – indeed, such a move would probably be resisted by many. One option would be to use the distinction in the single budgetary framework between: (i) a 'best estimate' budgetary ceiling (probably somewhere below the ceiling approved by executive boards for most agencies), and; (ii) the unfunded 'financing gap'. Each cluster could then identify its unfunded outputs and, on the basis of a prioritisation process for these unfunded outputs both at cluster and UNCT level (discussed below) priority unfunded activities could then be selected for joint fundraising. Agencies could seek, wherever country office discretion allows, to harmonise cost recovery rates on such projects at 7%. Assuming that the issue of the additional 1% addition to cost recovery rates was not a barrier, these selected programmes could then be financed through the One Fund (termed 'UN Programme Fund' in the UNBP) either via unearmarked or earmarked donor funding (using the pass-through modality). This would promote a more coherent and holistic approach to UN fundraising and help to reduce, though would probably not eliminate, the current practice of menu shopping by bilateral donors (there would still necessarily be some scope for donors providing earmarked funding to support preferred agencies, but at least this would represent a choice among agreed UNCT priorities).

148. It is important that the UN is not seen to be in direct competition with GoM for local donor financing. The UNDAF and the single budgetary framework could be easily interpreted as parallel structures competing against GoM for the same pool of donor funds. The MGDS, like the UNDAF, also has a large estimated 'resource requirement' with a significant number of unfunded activities amongst which GoM has undertaken a prioritisation exercise and is now seeking donor funding. UNCT fund-raising must show explicit alignment with and contribution to GoM MGDS priorities so

that One Fund and DAS are not viewed as rival fundraising instruments. Prospective contributors to the One Fund must be persuaded that marginal additional funding for UN activities will not only be beneficial to MGDS implementation, but also that GoM is supportive of the prioritisation process through which One Fund proceeds are allocated to UNDAF/One Plan outcomes.

149. Joint fundraising and/or the provision of unearmarked local financing will clearly require a system for prioritisation of UNDAF activities. A first phase of prioritisation should be undertaken at cluster level and involve the ranking of unfunded Country Programme Outputs, lead by the cluster conveners. Sequencing as well as relative importance would need to be taken into account here as high priority Outputs may be conditional upon prior delivery in other areas.

150. While earmarked finance in support of One Fund priority programmes would undoubtedly play an important role, the aim is for a growing proportion of One Fund finance to be unearmarked over time. However, initial indications are that there is limited willingness on the part of donors to provide unearmarked financing to support the One Fund element of a single budgetary framework. Further, those donors who are willing to consider providing unearmarked financing (the UK in particular) made clear that definite progress in demonstrating clear improvements in the effectiveness and efficiency of delivery are required before providing such financing. This raises the possibility that the UNCT could invest significant time and resources in the establishment of a single budgetary framework (e.g. with a single UN budget, a joint fundraising apparatus and a One Fund) only to find that local financing flows continued to be earmarked to programmes chosen bilaterally between donors and individual UN agencies. In order to avoid this, the RC and UNCT might therefore seek to establish a reform plan with supportive donors. Such a plan could contain a limited set of clear and time-bound benchmarks in the UN reform process together with unearmarked funding commitments (perhaps of relatively small amounts) to be disbursed upon delivery against the benchmarks. This would help to ensure that the UNCT could embark on reform in the knowledge that local financing patterns would begin to change as a result.

151. The adoption of joint fundraising and the allocation of unearmarked resources would require a 'Firewall' to separate the roles of the RC and UNDP Resident Representative. This would end the current practice of 'double hatting' whereby the same individual performs both roles (although UNDP could continue to host the RCO until the move to One Premises). Though there are no such issues at the moment, the present arrangement could risk making the process open to allegations of a funding bias to UNDP (although the present RC is seen as categorically beyond reproach in this respect). The appointment of a UNDP Country Director would provide a long-term solution to this issue. While this reform has already been requested twice in recent years by the UNCT and refused on both occasions, the One UN agenda now gives even greater weight to the case for a UNDP Country Director, a move that would send a clear signal of high-level support to the reform efforts of the Malawi UNCT.

152. The UN in Malawi is well placed to take advantage of the benefits offered by the 'One UN' initiative but it must work to gain the trust of the donors who will be required to provide the associated funds. This will require the UNCT to use the single budgetary framework, first and foremost, as a means of improving transparency, coherence and alignment of UN development assistance and of providing high quality performance management information. Such a framework can potentially be used in generating realistic budget estimates, reconciling planned outputs to available resources, strengthening the quality and timeliness of financial reporting to the MoF, and improving the quality of information regarding UN system compliance with the Paris Declaration baseline indicators. It should also provide a framework within which difficult prioritisation decisions can be taken, thereby providing an increasingly coherent strategic focus to UN development assistance. These are worthwhile steps in themselves, but should also serve to build donor support for the provision of local funding flows to UNCT priority projects. The delivery of the 'Four Ones' should also be accompanied by deeper reforms that address the UN's strategic positioning and effectiveness. Ideally the result will be an increase in unearmarked funding over the medium- to long-term.

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Annex 1: List of Interviewees

#	Name	Post	Organisation	Date
1	Michael Keating	Resident Coordinator & UNDP Resident Representative	UN Resident Coordinator's Office & UNDP	14/08/07
2	Lars Tushuizen	Special Assistant to the Resident Coordinator	UN Resident Coordinator's Office	14/08/07
3	Leif Sauvik	Counsellor, Deputy Head of Mission	Norwegian Embassy	14/08/07
4	Dr. Chris Ingelbrecht	First Counsellor, Infrastructure	Delegation of the European Commission	14/08/07
5	M. Mazlan Jusoh	FAO Representative in Malawi	FAO	14/08/07
6	Roger Roome	First Secretary (Development)	Office of the High Commission of Canada	15/08/07
7	Aida Girma	Representative	UNICEF	16/08/07
8	Juan Ortiz-Iruri	Programme Officer (Deputy representative)	UNICEF	16/08/07
9	Dr. Desmond Johns	Country Coordinator	UNAIDS	16/08/07
10	Domenico Scalpelli	Country Director	WFP	17/08/07
11	Curt Reintsma	Mission Director	USAID	17/08/07
12	Richard Kimball	General Development Officer	USAID	17/08/07
13	Dr. Boniface Kalanda	Assistant Representative & Chair of M&E Technical Working Group	UNFPA	20/08/07
14	Kondwani Hara	Finance Associate	UNDP	20/08/07
15	Maha Bahamdoun	Deputy Resident Representative, Programmes	UNDP	20/08/07
16	Themba Kalua	Programme Analyst / Programme Management Support Unit (PMSU)	UNDP	20/08/07
17	Mike Jamu Mwanyula	Assistant Director, Debt & Aid Management Department and UN Focal Point	Ministry of Finance	21/08/07
18	Lonis Luti	Principal Debt & Aid Management Officer	Ministry of Finance	21/08/07
19	Dawn Minot	Regional Coordination Specialist	UN Regional Directors Team (RDT)	21/08/07
20	Mark Stirling	Regional Director for Eastern and Southern Africa	UNAIDS	21/08/07
21	Agathe Lawson	Regional Director for Eastern and Southern Africa	UNFPA	21/08/07
22	Kondwani Hara	Finance Associate	UNDP	21/07/08
23	Susanne Thorsbøll	Coordination Analyst/Humanitarian Affairs	RCO	22/08/07
24	Matshidiso Moeti	Representative	WHO	22/08/07
25	Alemayehu G. M. Woldegiorgis		WHO	22/08/07
26	Thoko Chirwa Sickinga	AA/Finance	WHO	23/08/07
27	Frank S. Kufakwandi	Resident Representative	AfDB	23/08/07
28	Sharon Kinsley	Deputy Head of Office	DfID	23/08/07
29	Henry Domzalski	Representative	UNHCR	23/08/07
30	Matewos Beraki	Programme/Admin Officer	UNHCR	23/08/07
31	Sander Donker	Honorary Consul	Netherlands	27/08/07
32	Alessandro Mariani	Head of Delegation	Delegation of the European Commission	27/08/07
33	Jo Lofthouse	UN & Commonwealth Department	DfID HQ	03/09/07
34	Paul Muir	UN & Commonwealth Department	DfID HQ	03/09/07
35	Barbara Clemens	Director of Operations	WFP	19/09/07
36	Vincent O'Neill	Head - Technical Section	Irish Aid	02/11/07

Annex 2: UN Agencies Active in Malawi

#	Name	Category	Resident?	Activities in UNDAF?
1	FAO	Specialised Agency	Resident	Y
2	UNDP	Programmes and Funds	Resident	Y
3	UNFPA	Programmes and Funds	Resident	Y
4	UNHCR	Programmes and Funds	Resident	Y
5	UNICEF	Programmes and Funds	Resident	Y
6	WFP	Programmes and Funds	Resident	Y
7	WHO	Specialised Agency	Resident	Y
8	UNAIDS	Specialised Programme	Resident	Y
9	IMF ¹	Specialised Agency	Resident	N
10	World Bank ¹	Specialised Agency	Resident	N
11	ILO	Specialised Agency	Non-Resident	Y
12	IFAD	Specialised Agency	Non-Resident	N
13	UNEP	Programmes and Funds	Non-Resident	N
14	UNESCO	Specialised Agency	Non-Resident	Y
15	UNIDO	Specialised Agency	Non-Resident	Y
16	UNODC	Department / Office	Non-Resident	N
17	UNCDF	Programmes and Funds	Non-Resident	Y
18	UN Habitat	Programmes and Funds	Non-Resident	N
19	UNIFEM	Programmes and Funds	Non-Resident	Y

Note: ¹The IMF and World Bank Group also have offices in Malawi and are technically classified as UN Specialised Agencies. However, they have a large degree of autonomy in their relationship agreements with the UN.

Source: UN (2007).

Annex 3: UN Resident Agencies' Staffing Numbers in Malawi as at May 2006

	International	Nationals	Total
WFP	13	139	152
UNV (Part of UNDP)	48	60	108
UNICEF	22	60	82
UNDP	13	40	53
WHO	5	21	26
UNFPA	1	15	16
UNHCR	6	11	17
FAO	1	15	16
UNAIDS	3	6	9
UNDSS (Security)	1	2	3
Total	113	369	482
Percentage	23%	77%	100%

Source: UNCT Malawi (2006).

Annex 4: Sample Spreadsheet of the One Budgetary Framework from UNDG Guidelines

One UN Programme/Plan Outcomes Country Programme Outputs	2007			2008			2009			2010			Total all Agencies			Totals per Outcome/Output
	Regular	Other		Regular	Other		Regular	Other		Regular	Other		Regular	Other		
		Received/ Pledged	Funding Gap		Received/ Pledged	Funding Gap		Received/ Pledged	Funding Gap		Received/ Pledged	Funding Gap		Received/ Pledged	Funding Gap	
Outcome 1:																
Output 1.1.																
Output 1.2.																
Output 1.3.																
Outcome 2:																
Output 2.1.																
Output 2.2.																
Output 2.3.																
Totals per year																
Totals																

Notes:

1. Outputs are agency specific and should indicate agency specific resources allocated to achieve these outputs.
2. Regular resources are unrestricted or core resources of the Participating UN Organization. Regular resource allocations have been defined for the ExCom agencies for the period of 2007-2010 (i.e. Viet Nam).
3. Other resources are restricted or non-core resources. These country level resources can be divided into two categories:
 - a) other resources already received/pledged in support of on-going initiatives, and
 - b) other resources that have to be mobilized to fund the current unfunded portions of the One UN Programme/Plan
4. More detailed agency specific data can be reflected in separate sheets per agency.

Source: UNDG, 2007.