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**Financial, budgetary and administrative matters**

## **Evaluation of the pilot activities carried out under the direct budget support policy**

*Summary*

This report responds to Executive Board decision 2015/1, in which the Board requested UNDP to “...present an evaluation of the pilot activities carried out under this policy, including detailed information on experience gained during the pilot on UNDP engagement in sector budget support and the impact of these activities, particularly on the UNDP contribution to national capacity and policy development, before the first regular session of the Board in 2017”.

*Elements of a decision*

The Executive Board may wish to: (a) take note of the key evaluation findings from the two pilot projects in Burkina Faso and Nepal; (b) take note of the current and anticipated demand for UNDP engagement in sector budget support; and (c) recommend continuation of this funding mechanism as part of the options available to UNDP, particularly in the context of the 2030 Agenda for Sustainable Development and the Sustainable Development Goals.



## I. Introduction

1. Governments and international partners use direct budget support and pooled funds in development and in post-conflict and humanitarian situations to enhance available resources for national priorities. The two funding mechanisms combine resources from different sources with the intention of promoting coherence, coordination and cost-effectiveness while responding to specific development needs.

2. Direct budget support, as defined by the Organization for Economic Cooperation and Development, consists of combined financial instruments and capacity development assistance to national and local authorities in support of a proper institutional response to certain critical needs and development challenges. Direct budget support instruments use country-specific public finance management mechanisms and are meant to strengthen the financial and administrative capabilities of Governments to fund reforms and programmes that are essential to recovery, resilience and development. Direct budget support can take the form of financial transfers to national treasuries that help to improve fiscal stability and reduce budget deficits (so-called ‘general budget support’) or it can provide sector budget support comprising earmarked contributions to specific national programmes, transferred through government-administered financial management systems. A pooled fund is administered by a third party on behalf of the Government and is also aligned to a national programme. In the context of direct budget support, pooled funds often play a role of an intermediate step, where donors are not able or willing to put money directly into the sector budget support of the governmental programme, or they view pooled funds as more results-driven and effective at a given moment in time. UNDP involvement in pooled funding is limited to management services in the Multi-Partner Trust Fund, which is a financing mechanism that mobilizes resources for use in sector budget support.

3. Sector budget support and pooled funds are funding modalities that shift resource allocation policies from incremental budgeting to programme budgeting for more strategic, results-oriented use of public revenues. Incremental budgeting has the advantage of being informed by the previous budget cycle but, in the absence of a programmatic dimension, it can lead to fragmentation of strategic intent and of outcome achievement. Interest in programme budgeting is at least 100 years old and is partly responsible for historical and large-scale investments in reconstruction and development. This includes the Marshall Plan and the idea of a ‘Big Push’ that was revived in the early 2000s in relation to the Millennium Development Goals. Modalities such as sector budget support and pooled funds are part of this tradition, motivated to harmonize and align contributions to shared development priorities.

4. The Executive Board document on the policy of UNDP engagement in direct budget support and pooled funds ([DP/2008/36](#)) sets out the conditions for UNDP engagement in direct budget support as follows: (a) the primary goal of UNDP engagement will be to support national capacities to negotiate, design and manage direct budget support for development effectiveness; (b) UNDP will not contribute to general budget support; (c) UNDP will consider carefully the risks of transferring its resources into a sector budget support fund managed by a Government or a pooled fund managed by a United Nations fund, programme or specialized agency; (d) UNDP will provide such financial contribution based on the volume caps specified and the risk assessment and management criteria provided; (e) UNDP will manage a sector or programme-based pooled fund on behalf of the Government and donors, should the organization be called upon to do so in a transition phase. A primary focus of the pooled fund results would be national capacity development; and (f) UNDP will not transfer money into a pooled fund not managed by a United Nations entity.

5. In 2008, the Executive Board adopted decisions that enabled UNDP to provide sector budget support for a pilot period, which ran from 2008 to 2012 and subsequently was extended to include 2013 and 2014. The report on implementation of direct budget support activities during 2008-2014 ([DP/2015/3](#)) was presented to the Executive Board at its first regular session of 2015. Upon review of that report, the Board in its decision 2015/1

agreed that “UNDP continue the pilot period of implementation of the policy on UNDP engagement in a direct budget support and pooled fund environment, at the sector level, with the flexibility to use the four engagement modalities as described in the related guidelines, until 1 January 2017, with the understanding that no new engagement will be initiated beyond 1 January 2017 until a decision is made on the future of the policy”. The Board requested UNDP to conduct an evaluation of its pilot activities for subsequent presentation to the Board before the first regular session of 2017.

6. The present report presents a revision of guidelines and summary of evaluations, assessments and audits which demonstrate the experience gained during the pilot period on UNDP engagement in sector budget support and the impact of these activities, particularly on the UNDP contribution to national capacity and policy development, as well as a section on the way forward.

## **II. UNDP engagement in sector budget support and pooled funds**

7. UNDP first developed the guidelines for engagement in sector budget support and pooled funding in 2009, based on Executive Board decision 2008/24, in which the Board endorsed the policy on UNDP engagement in direct budget support and pooled funds. The guidelines were revised in 2015 in accordance with the revisions of all UNDP Programme and Operational Policies and Procedures and other institutional changes that have occurred since the policy was adopted. At the request of the Executive Board, UNDP also took into consideration recognized international practice as shared by various Member States. Key changes to the revised guidelines include the following:

(a) Tighter risk management schemes through the assessments of the harmonized approach to cash transfers, risk mitigation measures in the capacity appraisal checklist, additional clauses in the framework memorandum of understanding on non-compliance, and corporate-wide risk management using the Enterprise Risk Management system;

(b) Consistency in terminologies: focus on the sector budget support policies and guidelines to avoid overlap with other policies and guidelines;

(c) Tighter requirements for monitoring and reporting to ensure the efficiency and effectiveness of the UNDP contribution to sector budget support;

(d) Streamlined appraisal in accordance with the new and simplified structure of UNDP;

(e) Adjustments in accordance with the latest policies, including the new general management support rate and new requirements for cost-sharing agreements.

## **III. Summary of evaluations, assessments and audits of the UNDP engagement in sector budget support.**

8. To date, UNDP has had limited engagement in sector budget support. This funding instrument has been implemented in only two countries, Burkina Faso and Nepal. In both cases, the UNDP financial contribution is transferred to a sector budget support pooled fund managed by the Government. The use of the sector budget support fund is subject to national regulations including allocations to the sector’s needs, and procurement and accounting, provided that such systems exist and that they meet the requirements set out in the Financial Regulations and Rules of UNDP. Capacity development support to relevant national institutions is provided on the basis of dedicated UNDP projects or joint United Nations programmes, both categories using national implementation modalities.

9. In Burkina Faso, UNDP together with other donors provides resources in two pooled funds managed by the Government; one for the implementation of the HIV/AIDS programme, and the second one devoted to access to energy. UNDP involvement in sector

budget support in Burkina Faso started in 2008 as a four-year pilot that was twice extended for two years, with the second extension ending in January 2017.

10. In Nepal, in accordance with the guidelines and procedures for country offices and headquarters units on UNDP engagement in sector budget support and pooled funding, arrangements have been in place since 2014 for financial support to the Local Governance and Community Development Programme.

### **Experiences and lessons learned from Burkina Faso**

#### *Background*

11. By 2007, 36 per cent of public development aid in Burkina Faso was provided in the form of general budget support (29 per cent) and common basket funds (7.3 per cent). This trend continued into the period when the current pilot policy came into effect. With UNDP regarded by the Government as an important partner in specific national sectors, the country office was invited to play a part through sector budget support financial contributions. This involvement is circumscribed by the requirements of option D of the pilot policy, and therefore has remained strictly limited from the start. The scope of engagement is described as follows: “The recent decision of the Executive Board of UNDP to authorize a four-year pilot period to allow the testing of budget support has allowed the country office to experiment with new modalities (basket funds) stressing the importance of national ownership and harmonization. In spite of this, the rigidity and heaviness of some corporate institutional procedures of UNDP are a constraint to these efforts”.<sup>1</sup>

12. UNDP plays a central role in the coordination of aid for the implementation of the principles of both the Paris Declaration and the Busan Partnership for Aid Effectiveness at national level, closely assisting the Government of Burkina Faso in the development and review of its National Action Plan for Aid Effectiveness within the broader context of the Strategy for Accelerated Growth and Sustainable Development, the country’s major national development plan, which UNDP also supported. National systems that are to be strengthened in line with the Paris and Busan principles are those involved in sector budget support and pooled funding.

13. A request from the Government of Burkina Faso for UNDP participation in sector budget support was approved in 2009 for two projects, on HIV/AIDS and human rights promotion. Each initiative falls within the core mandate of UNDP. Over the period 2008-2015, total disbursements of direct support made by six technical and financial donors as common funding of the Strategic Framework for the Fight against HIV/AIDS and Sexually Transmitted Infections (STIs) accounted for a total of nearly \$64 million and \$50 million for the Multifunctional Platform Programme.<sup>2</sup> Over the period, UNDP participation in these common baskets amounted to \$100,000 annually from regular resources and \$3.3 million from other resources (provided by the Government of Luxembourg).

14. All evaluation and audits conducted in Burkina Faso found that the national executing body and the country office have complied with the guidelines and procedures for the pilot policy. Two issues have been highlighted to date that have a bearing on its efficacy: (a) the lengthy approval process of the direct budget support fund (echoing the findings of the assessment of development results); and (b) the flexibility in setting the threshold ceiling which is capped at 10 per cent of the annual authorized spending limit of regular resources.<sup>3</sup>

#### *Findings and lessons learned*

15. Through its participation in these two common baskets, UNDP has demonstrated that its comparative advantage lies not in financial contributions but in supporting national

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<sup>1</sup> Assessment of Development Results for Burkina Faso, 2009.

<sup>2</sup> Evaluation of UNDP engagement in direct support in Burkina Faso (Evaluation de l’engagement du PNUD dans les appuis directs au Burkina Faso), 2016.

<sup>3</sup> Report on direct budget support, 2008-2014 (DP/2015/3).

capacity-building. UNDP direct budget support facilitated the strengthening of national capacities in the use of planning, monitoring and reporting mechanisms to improve programme management and coherence.<sup>4</sup> The volume of aid provided is not as important as actions for building capabilities, which proved to be critical when provided. The context of Burkina Faso has been favourable to the implementation of the UNDP pilot commitments for formulation and conduct of direct budgetary support. UNDP has helped to improve the alignment of technical and financial partners to national priorities and to simplify resource flow management procedures in the field to fight HIV/AIDS and the Multifunctional Platform Programme.

16. According to the 2016 evaluation of UNDP engagement in direct support in Burkina Faso, the organization's engagement in sector budget support and implementation of these two pooled funds demonstrated a series of advantages in using such funding mechanisms to address national priorities.

17. The evaluation concluded that the UNDP contribution to the pooled funds for institutional support to the Permanent Secretariat of the National Council for the Fight against AIDS and STIs and the Multifunctional Platform Programme was relevant, efficient and sustainable. Its participation in the pooled funds enabled UNDP to align its actions on national programmes and to harmonize procedures with those of other bilateral and multilateral partners. Dialogue has been strengthened not only with Government at both central and local levels, but also with civil society and the private sector. The direct budget support also had positive effects on policy ownership and formulation. These common funds have been combined with actions strengthening the capacity of central and local authorities. The common funds that were overseen by management units on behalf of the Government were also found to be aligned. Ongoing consultations between the Government and donors supported effective advocacy while ensuring better alignment of interventions with priority programmes.

18. UNDP participation in pooled funding arrangements strengthened the impact of its contributions to policy formulation. This was noted during the formulation of various national and sectoral policies and strategies. Complementarity between budget support and support for the Economic and Financial Sectoral Policy (Politique Sectorielle de l'Economie et des Finances (POSEF)) was noted as significant. The POSEF was supported by several development partners, including UNDP, during the review period (2008-2015). Moreover, UNDP participated actively in the dialogue on the strategy for strengthening public finances. Participation in the pooling of resources was of strategic importance for several reasons. It fostered dialogue towards a common vision and joint action by the Government and donors, because close engagement facilitated mobilization of resources and contributed to an environment of trust. In the HIV/AIDS pooled fund, the partnership between UNDP and the other agencies assisted advocacy efforts for strengthening greater integration of groups including minorities in the national strategy for combatting HIV/AIDS.

19. According to the assessment report for the pooled funds to support the fight against HIV/AIDS, pooled resources have a comparative advantage relative to other financing modalities because they encourage development partners to strengthen their commitment to the process. Harmonization efforts associated with the pooled funds have simplified procedures, reduced transaction costs and improved the absorption of resources. In addition, the Multifunctional Platform Programme is considered a successful example of a public-private partnership and a way to provide innovative financing for development.<sup>20</sup> UNDP engagement in direct budget support and pooling of resources has contributed to the development of national systems and capacities, particularly on strengthening both national

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<sup>4</sup> Evaluation of UNDP engagement in direct support in Burkina Faso (Evaluation de l'engagement du PNUD dans les appuis directs au Burkina Faso), 2016.

budget systems and national leadership in coordination, as well as coherence in partners' support to national priorities. Different assessments of the national system of public financial management, including the 2014 assessment of public expenditure and financial accountability, found that the public finance system is satisfactory overall with no major fiduciary risks concerning the transfer of funds to partners. The procurement procedures of the common fund for the fight against HIV/AIDS, are controlled by the Financial Management Unit of the Permanent Secretariat of the National Council for the Fight against AIDS and STIs and the rate of implementation of procurement plans was found to be satisfactory.

20. Coordinated planning and implementation also led to the adoption of a manual of procedures that was developed and agreed by all stakeholders and which resulted in streamlined mobilization and utilization of resource and results-based management. With the support of UNDP, the Planning and Monitoring and Evaluation Coordination Unit, a department of the Permanent Secretariat, has strengthened the coordination of different monitoring and evaluation mechanisms. All of these activities allowed the Permanent Secretariat to implement different mechanisms for planning, monitoring and evaluation, contributing to the continuous improvement of the implementation of the pooled fund. Upon the formalization of the sector budget support, parties involved agreed on joint requirements and practices for results-based management, audit and evaluation that complied with donors' benchmarks and procedures.

21. Capacity development pursued through sector budget support can now be measured using the indicators established to measure the funds' performance, and which are useful to other development partners interested in joining such support modalities. Given that Burkina Faso is one of the pilot countries for the introduction of the monitoring framework using the Busan Agreement principles, national reports provide accurate information on the progress made by these pooled funds and related national systems.

22. According to the evaluation, UNDP has deployed adequate resources including financial support for the implementation of these common baskets. With its participation in two common baskets, UNDP has shown an ability to use the modality of direct support to improve efficiency including disbursements. The key findings also articulate how direct support successfully leveraged/multiplied donor contributions.

23. The evaluation indicated the following lessons learned regarding UNDP participation in the two joint financing projects:

- (a) The communication between the project coordination unit and the technical and financial partners in the two programmes is positive. As a participant in the Financial Committee, UNDP remains informed of the development of the programme;
- (b) A unique feature of coordination between the technical and financial partners enables more effective and efficient management of the activities and funds of the common basket (steering committee, technical committees);
- (c) A framework for action encourages synergies between partners involved in the same sector or thematic development, and sharing of roles and responsibilities for implementation;
- (d) Establishment of a common basket helped to determine adequate sequencing of activities financed by the pooled fund, thus avoiding duplication and achieving greater efficiency;
- (e) A multi-year overview of available funding was made possible through effective and comprehensive planning;
- (f) Reduction of transaction costs and more flexibility in the administration of funds for donors promote greater efficiency in the use of funds;
- (g) The availability of technical staff in advance of the Steering Committee meetings meant that more of the Committee's time could be devoted to policy and political dialogue;

(h) The success of pooled funding arrangements is based on a relationship of trust and strong convergence of views between the donors and the Government through an ongoing, direct and intensive dialogue.

24. The process still has some difficulties that can be addressed by implementing the evaluation recommendations as follows:

(a) Systematize the provision of technical assistance in the arrangements for participation in common baskets or budget support;

(b) Consider the importance of dialogue at technical and political levels and a policy of good communication between project stakeholders in the common basket arrangements. This dialogue should be conducted in a formalized framework, be maintained permanently and capture the experiences of the Financial Committee and Steering Committee;

(c) For greater efficiency and sustainability, avoid using management units (project) in the provision of resources from the common basket funds, in order to ensure the optimal effect in terms of utilizing national procedures;

(d) For all decisions related to the common basket funds or direct budget support and in order to achieve better coherence, it is necessary to take into account their institutional anchoring and alignment with the relevant sectoral policy;

(e) Avoid mixing sources of funding in pooled funding arrangements or budget support, to allow for optimal harmonization of procedures and overall alignment;

(f) Technical assistance provided jointly through pooled funding arrangements or budget support should strengthen the capacity of ministries and/or technical institutions;

(g) Systematize the development and implementation of management tools agreed by all stakeholders in joint funding programmes.

25. Pooled funding for HIV/AIDS and other emergency priorities is still relevant in the development context of Burkina Faso. Maintaining or scaling up these initiatives will require stronger national capacities for relevant agencies. It is therefore also important that national counterparts give equal consideration to capacity enhancement objectives to supplement transitional funding instruments such as sector budget support and pooled funds.

### **Experiences and lessons learned from Nepal**

#### *Background*

26. Since the 1990s, UNDP has supported the Government of Nepal through various successive programmes in the areas of decentralization and local governance to improve service delivery and reduce poverty. In 2013, at the conclusion of Phase I of the Local Governance and Community Development Programme (LGCDP), the Government took the bold step of adopting a sector-wide approach for Phase II of the LGCDP, known as LGCDP-II. Because the Government saw the need to pool all resources and finances for initiatives, projects and activities related to local governance, LGCDP-II employed a joint financing arrangement or sector budget support modality.

27. UNDP, together with the United Nations Capital Development Fund (UNCDF), United Nations Children's Fund, United Nations Population Fund, United Nations Volunteers programme (UNV) and the United Nations Entity for Gender Equality and Empowerment of Women (UN-Women), joined the LGCDP by providing a limited but symbolic contribution to the joint financing arrangement.<sup>5</sup> The six agencies instead provided technical assistance and programmatic support. UNDP signed the joint financing

<sup>5</sup> Mid-Term Review of the Local Governance and Community development Programme (Phase II), 2016 page 38.

arrangement on 8 July 2014 and is contributing \$200,000 as sector budget support towards the total budget for LGCDP-II (July 2013 – July 2017) of \$1,362 million, of which \$250 million were delivered in 2015. The Asian Development Bank and the Governments of Canada, Denmark, Norway, Switzerland and the United Kingdom also contributed to the joint financing arrangement. The project is funded by the Government of Nepal (\$1,126 million) and development partners (\$210 million).<sup>6</sup> LGCDP-II has two parts: (a) the Government's fiscal grants to local bodies, which constitute 85 per cent of the total budget; and (b) the activities funded under the joint financing arrangement, which make up the remaining 15 per cent of the budget. The latter is complemented by a provision for technical assistance provided through the Policy and Programme Support Facility, a joint programme of UNDP, UNCDF and UNV.

28. Against the planned budget of \$210 million for contributions of development partners, as of early 2016, the actual commitment through the joint basket was only \$98.3 million. The grants released by the Government are also below the initial budget provisions, partially due to the disruptions resulting from the 2015 earthquake. In December 2015, the Government communicated that \$407.1 million had been transferred, representing 35 per cent of the amount foreseen for four years.<sup>7</sup>

29. UNDP had led in the areas of capacity development, subnational governance reform and restructuring, and livelihoods. The objective of the Policy and Programme Support Facility is to support effective implementation of LGCDP II at all levels through the provision of technical assistance, particularly in relation to: (a) long-term national technical assistance at the central level, in the regions and at the local level, as well as funding for associated operational and logistical costs; (b) policy, field testing/ innovation and capacity development, through technical assistance, seed funding, operations and logistics; (c) coordination and oversight, through the establishment of the Development Partner Coordination Cell, which was created in late 2014 to serve as a liaison between the Government and the partners, and the deployment of technical assistance for the purposes of fiduciary assessments and technical reviews and evaluation.

#### *Findings and lessons learned*

30. While certain aspects of the programme have been successful, it is difficult to assess its total achievement and the development impact of many activities due to the lack of a consolidated report, especially with regard to the role of UNDP, which is expected in the latter half of 2017.

31. The 2016 evaluation by UNDP Nepal of outcomes 5 and 6 of the country programme indicates that there is good evidence to suggest that some of the main areas of the project had significant development benefits, particularly the continuing support to the functioning of ward citizen forums, and has made a solid contribution in the areas of inclusive planning, means for the expression of citizen voices, public financial management and revenue generation, training, gender, policy and legislation, and management information systems. The Policy and Programme Support Facility has supported the adoption by local bodies of the Fiduciary Risk Reduction Action Plan. With 60 per cent of the Action Plan's indicators having been met, there is evidence of improvement in the financial management system.

32. Other noted progress includes:<sup>8</sup>

(a) Government grants (conditional capital grants) to 3,276 village development committees (VDCs) increased and budget authorization to respective VDCs;

(b) Decision-making on various projects in districts is now changed to the district council level. These projects relate to local transport, drinking water, small irrigation,

<sup>6</sup> Auditor General of Nepal, 53rd Annual Report of the Auditor General, 2016.

<sup>7</sup> Mid-Term Review of the Local Governance and Community development Programme (Phase II), 2016.

<sup>8</sup> Annual report (Fiscal year 2014/15) submitted by the Ministry of Finance before the Parliament.



micro-hydro power, city development, alternative energy, garbage management and social infrastructure;

(c) Grants were provided to 25 municipalities for comprehensive town development plans;

(d) Preparation of land use plan in six new municipalities;

(e) Update of beneficiary records and development of software for social security payments are ongoing;

(f) Progress made on payment of social security entitlements through the banking system.

33. The programme is also considered to have made a great contribution to improve the relationship between citizens and the State through its support for ward citizen forums and community awareness centres, in which an estimated 4-5 per cent of the total population are directly engaged. Such institutions have instilled a sense of ownership in development planning, also because in many cases concrete funding had followed an expression of needs. There is a general perception that because both information and resources are more widely shared, the accountability for the use of those funds has improved.

34. It has been recommended that the Government consider a gradual transition of "social mobilization in donor-funded project mode implemented by government" to a situation where it is either considered a regular service delivery function of the local bodies or where, as part of a pluralistic society, it is taken on by civil society itself.<sup>9</sup> It is also recommended that a next phase or new programme should focus on the establishment of a local government structure (the "supply" side).<sup>10</sup> Here UNDP can contribute via its comparative advantages in institution-building and capacity strengthening, and by building on its long-term close relationships with many different government agencies.

#### **IV. The way forward**

35. The Executive Board may wish to consider a continuation of this policy on the basis of lessons learned from the above evaluations and audits of practices to date. As noted, many benefits are seen to accrue, such as: (a) a single framework of donors enables more effective and efficient management of activities and funds; (b) participation in the pooled funds steering and technical committees allows for close risk management and regular monitoring of processes; (c) a single integrated policy framework enhances synergies among donors supporting the same sector or thematic development and optimal sharing of roles and responsibilities for effective interventions; (d) the establishment of a pooled fund enables continuity and effective sequencing of activities financed, avoiding duplications and yielding greater efficiency; and (e) a multi-year overview of available funds is made possible through effective and comprehensive planning.

36. Continuing this policy is also merited by the needs of this pivotal moment, when implementation of the 2030 Agenda for Sustainable Development requires an approach involving multiple stakeholders and means of financing. It demands a paradigm shift from funding to financing. Beyond resourcing its own programming, UNDP has an important role in mobilizing development investments and other resources to enable countries to achieve the Sustainable Development Goals. Direct budget support and pooled funds are one such financing mechanism, and it is not feasible to eliminate such a tested financing mechanism at a time when there is a need for innovative and blended financing. The future

<sup>9</sup> Mid-Term Review of the Local Governance and Community development Programme (Phase II), 2016 Executive Summary, Recommendation 2.

<sup>10</sup> Mid-Term Review of the Local Governance and Community development Programme (Phase II), 2016 Executive Summary.

of development cooperation, including South-South and triangular cooperation, and its effectiveness in achieving these critical goals requires all possible financing instruments, particularly funding mechanisms that complement domestic resources and support national programmes and initiatives.

37. Pooled funds are a critical instrument for financing United Nations Development Assistance Frameworks (UNDAFs). The UNDAF guidelines specify that the United Nations system should propose the right mix of financing sources and instruments to address identified national priorities in a particular context. Country-level pooled funds are one such type of financing instrument. They operate in a wider financing ecosystem, including funds managed by other partners (e.g., the World Bank, regional development banks), bilateral official development assistance to individual projects, credit and loans by international financial institutions, domestic resources provided through national budgets, and private and innovative sources of finance, notably in middle-income countries. Pooled funds promote national ownership through a country-driven process, secure alignment with national priorities and use national systems while promoting mutual accountability by ensuring that donors and recipients are accountable for development results.

38. UNDP recognizes direct budget support as a development finance instrument that promotes national ownership, transparency and harmonization in aid allocation, and alignment with national budget priorities. This financing modality embodies principles of national ownership that UNDP has long stood for and that are called for by the Millennium Declaration, the Monterrey Consensus on Financing for Development, the Paris Declaration on Aid Effectiveness, the Global Partnership for Effective Development Cooperation, the Addis Ababa Action Agenda, the 2030 Agenda for Sustainable Development and all of the other global commitments that UNDP joined and assists. It is imperative for UNDP to use its mandate and comparative advantage to support national capacities, at all levels, to negotiate, manage and utilize direct budget support for development results. Fragmentation of aid can be avoided through the use of sector budget support, which reduces the transaction costs of aid for recipients by channelling the funding from multiple donors through one instrument towards nationally defined and internationally supported programmes.

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