

Course Name: Harmonized Approach to Cash Transfers (HACT)

Lesson Name: Course Introduction

Page 1: Welcome Message

Welcome to this online training that discusses the Harmonized Approach to Cash Transfer (HACT).

This training has been developed to be used by UNDP Staff and other personnel who work with UNDP in the implementation of Development Projects that involve cash transfer to partners.

Page 2: Course Structure

Let's now understand how this training has been organised. This training is divided into four lessons and an assessment section.

Click on the labels to learn more about the content of each section.

Page 3: Summary of HACT Training

HACT establishes common principles and processes for issuing cash transfers to implementing partners by UN Agencies that have adopted the 2014 UNDG HACT Framework.

Click the questions on screen to learn more about the HACT training.

Page 4: Course Objectives

Before we begin, let's review the learning outcomes of this training.

Lesson Name: HACT Overview

Page 1: What is HACT?

HACT stands for the Harmonized Approach to Cash Transfer.

Harmonized refers to a common operational framework using the same, consistent approach by UN Agencies that have adopted the UNDG HACT Framework.

It standardizes the way UN Agencies work with partners while allowing for UNDP-specific thresholds and guidance, based on respective risk, complexity and business model.

Page 2: HACT Overview

HACT applies when cash transfers are made to partners who are implementing UNDP development projects or development activities. The partners may be implementing partner or responsible parties. HACT does not apply to cash transfers issued to UN Agencies.

The HACT framework provides an outline of the principles and implementing processes for transferring cash to government and non-government (e.g. NGOs) partners.

In short HACT is designed to manage the risk of cash transfers by providing guidance on how to assess partners, select implementation and cash transfer modalities based on the partner

assessment and conduct assurance activities to confirm that funds have been used for the intended purpose.

Page 3: History of HACT

HACT was introduced in response to three Declarations.

Click on the different phases below to learn the history of HACT adoption.

Page 4: Applicability of HACT

The HACT Framework revised in 2014 has been adopted by:

- UNDP
- UNFPA
- UNICEF

Other UN Agencies and programmes may adopt the revised framework based on its applicability to their rules, policies and business models.

The framework does not require additional approval from the government in the country in which the partner operates, as HACT-related clauses are included in standard agreements used by UN adopting agencies.

Page 5: Objectives of HACT

As a framework, HACT has three main objectives.

Click the labels to learn more about each objective.

Page 6: Key Changes in the 2014 Framework

The key elements of the revision in the 2014 HACT framework include:

- Clarity on applicability
- Clarity on accountability
- Common principles and processes to be mainstreamed in UNDP policies and procedures
- Joint operationalization
- Additional tools and job aids

Click the cards to learn more about each element.

Lesson Name: HACT Detailed Requirements

Page 1: Four Key Elements of HACT

The HACT framework contains four key elements:

- Capacity Assessments,
- Cash Transfers and Reporting,
- Assurance Activities, and
- Capacity Building.

Click each box to learn more about the elements.

Page 2: Capacity Assessments

Let's begin with the first key element, capacity assessment.

Capacity assessments under HACT consist of Macro and Micro assessments.

Macro Assessment reviews the capacity of the country's Public Financial Management (PFM) environment.

Micro assessment is a review of partner's financial management and operational capacity and involves looking at the partner's policies and procedures, internal controls, staff and organizational structure.

Page 3: The Macro Assessment Overview

The macro assessment evaluates the public financial management environment and specifically involves a review of the general macro-economic environment including stability of banking system and financial markets, monetary policy, the accountability of financial markets and institutions, national procurement capacity, currency stability and presence of informal/black markets.

A review of the capacity of the Supreme Audit Institution (SAI) and their ability to perform audits of government partners.

Click the button to learn more about the reasons for conducting the macro assessment.

Page 4: Macro Assessment Responsibilities

Authorisation from the government is not necessary to conduct a macro assessment, as no original data collection is performed. The assessment is a desk review of PFM assessments conducted by the World Bank and other international development institutions.

The HACT Inter-Agency coordinator working with the HACT Inter-agency Working Group is responsible for managing the macro assessment process on behalf of the UNCT. This includes the procurement of third party service provider to conduct the assessment.

If UNDP is the only Agency which has adopted HACT in the country, the UNDP HACT Focal Point will be responsible for managing this process.

The Resident Coordinator should ensure that the results of the macro assessment are taken into account when formulating the UNDAF and CPD and when making decisions on the use of the SAI for audits of government partners.

The macro assessment must be completed once per programme cycle—preferably during the country programme design phase—providing inputs to the UNDAF development and Country Common Assessment (CCA).

Once the assessment is completed, it's valid for the whole duration of the programme cycle.

The macro assessment leverages available PFM assessment conducted by the World Bank, the International Monetary Fund, CIDA, DFID, EU, ADB and other international development institutions.

Page 5: The Micro Assessment

The micro assessment evaluates the partners' financial management and operational capacity to determine the partner's overall risk rating. The assigned risk ratings from a micro assessment may be Low, Moderate, Significant or High.

The assessment primarily consists of interview with partners and a review of relevant documentation in the following seven key areas:

- Background information and legal structure,
- Programme management,
- Organizational structure and staffing,
- Accounting policies and procedures,
- Fixed assets and inventory,
- Financial reporting and monitoring, and
- Procurement capacity.

The Micro Assessment Questionnaire contains of 96 questions under the above 7 categories that need to be answered in order to derive the risk rating.

A link to the questionnaire and accompanying guidance is included in the Resources section of this training.

Page 6: Micro Assessment Responsibilities

The following are the key requirements of the micro assessment:

A micro assessment should only be performed for partners expected to receive cash transfers greater than \$300,000 per programme cycle.

Offices, at their discretion, may choose to micro assess partners who are below the threshold due to risk considerations e.g. the office or other UN Agencies have no prior experience with the partner.

The assessment should be performed by a qualified third party service provider to ensure both independence and technical expertise in evaluating the partners' capacity.

The HACT Focal Point manages the micro assessment process. This includes preparing the micro assessment plan, supporting the procurement of a third party service provider, maintaining records and coordinating communication with partners.

The responsible UNDP staff coordinates the assessment of the partner by ensuring the third party service provider has all the required information and plans the timing with the partner.

For shared partners, the UNDP HACT Focal Point should, through the HACT inter-agency coordinator and Inter-Agency HACT Working Group, plan for the micro assessment jointly with other UN agencies that have adopted HACT.

Page 7: Process of the Micro Assessment

The process starts with preparing a Micro Assessment plan which is a list of all partners expected to receive cash transfers during the current programme cycle.

The plan shows each partner's estimated cash transfer which is used to identify partners who meet UNDP's micro assessment threshold. The plan can be generated from the HACT SharePoint site if all partner information has been entered and information updated. The Micro Assessment plan should be approved and signed-off by the Head of Office.

The Country Office prioritises on which micro assessment to conduct first based on three factors:

- Based on the timing of the implementation of project activities
- The amount and timing of cash transfers planned for during the year
- Previous experience with the partner

The micro assessment is performed by a third party service provider by interviewing key staff of the partner and reviewing relevant documents.

The cost of third party service provider should be budgeted for and charged to the project.

For share partners, the assessment should be jointly performed with other UN Agencies and the cost shared among them.

During the micro assessment, the assessment questionnaire is completed.

The micro assessment results in an overall risk rating for the partner.

The risk rating can be adjusted by taking into account other available information, for example, prior experience with the partner and results from assurance activities conducted.

The micro assessment report is uploaded in the HACT SharePoint site and the required information is updated in the Micro Form.

Page 8: Micro Assessment Validity

The micro assessment is prepared in advance of each programme cycle and is valid for a maximum of 5 years.

The results of the assessment are valid for the duration of the programme cycle (5 years) and may extend across programme cycles depending on the year it was conducted, unless there are major changes in the partner's structure or control environment.

Page 9: Using Micro Assessment Results

The overall risk rating determined by the micro assessment should be used by offices when determining the appropriate cash transfer modality for the partner and the corresponding assurance activities in accordance with UNDP HACT guidelines.

Page 10: Thresholds for Micro Assessments in UNDP

UNDP specific guidelines determine a specific threshold for when micro assessments, audits, programme visits and spot checks will be required.

Click the tabs to learn more about the specific thresholds applied on partners for micro assessments in UNDP.

Page 11: Cash Transfer Modalities

Cash transfers can be made to partners under NIM and DIM implementation modalities. The three cash transfer modalities under the HACT framework are:

- Direct Cash Transfer (DCT)
- Direct Payment
- Reimbursement

Click each modality to learn more.

Page 12: Cash Transfer Modality Guidelines

The cash transfer modality selected for each partner is based on the partner's risk rating determined during the micro assessment. E.g. if a partner is rated as "Low" Risk, all the three cash transfers modalities may be used.

For non-assessed partners who are below the micro assessment threshold, the office should select the most appropriate cash transfer modality for the partner based on previous experience and other risk considerations.

Refer to UNDP's HACT POPP for detailed guidance.

Page 13: HACT under DIM and Full CO Support to NIM

Click on the tabs to learn more about HACT application in DIM and Full Country Office Support to NIM situations.

Page 14: Using the FACE Form

The Funding Authorisation and Certificate of Expenditures (FACE) form is a standardized reporting form which replaces previous generic financial reports used by different offices, UN Agencies and partners for requesting cash transfers and reporting expenditures.

The FACE form is used:

- By Partners to request for funding
- By Partners to report expenditures incurred
- By Partners to certify, by a designated partner official, the accuracy of the data and information reported
- By UNDP to record expenditures in UNDP's ERP System

The form is provided in a standard template that must be used by all partners. A link to the FACE form template is included in the Resources section at the end of this course.

Click the button to learn more about using the FACE form by UNDP.

Page 15: Assurance Activities

The third element of the HACT framework is assurance activities.

Assurance is the term that is used to describe the process of determining whether the funds transferred to partners were used for their intended purpose and have been approved and are adequately supported.

Assurance requires that you are familiar with the management procedures of your partners including cash payments, approval, procurement process which should have been assessed and found adequate during the micro assessment stage.

Page 16: Assurance Activities

The HACT framework requires the following three assurance activities be performed on partners who receive cash transfers from UNDP:

- Programme Visits
- Spot Checks
- Scheduled and Special Audits

Click each assurance activity to learn more.

Page 17: Frequency for Assurance Activities in UNDP

The table below indicates the minimum frequency of assurance activities in UNDP.

Page 18: Assurance Activities Planning Process

Planning assurance activities is critical to successful implementation of the HACT framework.

Therefore an assurance plan must be developed at the beginning of the programme cycle and updated promptly in the HACT SharePoint site or as changes occurs in partners risk rating and as new partners come on board.

The process starts with preparing a HACT assurance plan which is a list of all partners expected to receive cash transfers during the current programme cycle. The assurance plan also shows each partner's estimated cash transfer and the scheduled dates of assurance activities for each partner.

The assurance plan can be generated from the HACT SharePoint site if all required assurance activities have been logged in the site and information updated periodically.

The HACT assurance plan should be reviewed and approved by the Head of Office.

After the assurance plan has been developed, the planned assurance activities are discussed and agreed with the partner and incorporated in the partner's work plan and the activities are performed in accordance with the agreed plan.

Page 19: Assurance Activities Planning Process

Click each role to learn about the responsibilities in planning assurance activities.

Page 20: Spot Check Key Steps

Below are the key highlights and steps involved in spot checks.

Page 21: Assurance Implementation

Offices must document the results of all assurance activities, any corrective actions agreed with the partner, the impact on future planned assurance activities and capacity development needs of the partner.

The report should be reviewed and approved by the Head of Office.

The assurance plan, which can be generated from the HACT SharePoint site, should be kept up to date to reflect the status of implementation of planned and completed assurance activities.

Page 22: Assurance Implementation

The last element of the HACT framework is capacity development.

Offices usually channel resources on key thematic and mandated areas of development. Financial management capacity is cross-cutting; it impacts the ability of the partner to effectively contribute to the achievement of results.

Capacity development is a central part of HACT and a core component of managing risk, rather than just assessing it.

Capacity development can take place at two levels:

- At the national level, usually led by international development partners such as the World Bank.
- At the partner level, through actions that improve the partners financial management and operational capacity.

Page 23: Capacity Development Methods

Capacity development is the key to achieving the HACT objective of promoting national ownership and establishing long-term sustainable development.

There are several ways to develop the capacity of a partner.

Click the icons to learn more.

Page 24: Other Considerations

The cost of micro assessment and assurance activities should be budgeted and charged to the projects when the cost is incurred.

Page 25: The HACT SharePoint Site

Click the buttons to learn more about the HACT SharePoint site.

Page 26: Country Example

Utopia Country Office has a programme cycle budget of 100 Million USD and 30 partners.

Before the beginning of the UNDAF and new country programme, the HACT UN Country Team (UNCT) comprising of representatives from UNDP, UNFPA, UNICEF and other UN agencies who have adopted HACT should be formed.

The Macro Assessment should indicate whether the UN Agencies may use the supreme audit institution (SAI) for the audit of government partners.

At the beginning of the new country programme, the UNDP HACT Focal Point determines which partners meet UNDP's micro assessment threshold (\$300,000) and therefore need to be micro assessed by a third party service provider. Partners with current year project budgets in Atlas will be listed in the SharePoint site where offices should enter the estimated programme cycle funding of each partner, indicate whether a micro assessment is required and indicated the assessment scheduled date. The Micro Assessment plan can be generated once all the information is entered.

The HACT Focal Point will:

- Share the micro assessment plan with other UN agencies to determine if there are any shared partners,
- Support the recruitment of a qualified service provider to perform micro assessments,
- Upload completed micro assessment reports to the HACT SharePoint,

- Discuss the micro assessment reports findings with the partners, including any identified capacity development needs, and
- Document the results and understanding of the micro assessment report.

For partners that do not meet UNDP's micro assessment threshold (cash transfers greater than \$300,000 per programme cycle) do not need to be micro assessed unless its deemed necessary at the discretion of the office.

At the beginning of each year the HACT Focal point will update the Assurance Plan to reflect when spot checks, programme visits and audits will be conducted. The Assurance Plan is maintained in the HACT SharePoint site. The nature and frequency of Assurance Activities will depend on the partner's risk rating.

Based on the HACT assurance plan the HACT Focal Point will support the engagement of a qualified third party service provider to undertake spot checks and audits.

The HACT Focal Point will upload assurance activity reports and findings to the HACT SharePoint site.

Capacity building plans should be developed and implemented to address the gaps identified when carrying out micro assessments and assurance activities.

The Micro Assessment Plan and Assurance Plan should be regularly updated in the HACT SharePoint to reflect completion of assessments and assurance activities and changes made during the programme cycle.

Lesson Name: Course Summary

Page 1: Welcome Message

Before we conclude this training programme, let's review the key points of the HACT framework you have learned in the training.

- Help manage risk relating to cash transfers to partners implementing project activities,
- Reduce transaction costs by harmonizing processes across UN Agencies, and
- Build capacity of partners and national governments.

All these objectives are aimed at achieving programme results and improving effectiveness. HACT applies in all cases where cash transfers are made to partners both—government and non-government partners. HACT does not apply to cash transfers made to other UN Agencies.

Page 2: Additional References

Congratulations! You have reached the end of the HACT Overview training. Additional reference materials are listed below for further guidance.

Assessment:

Welcome to the Assessments Module. Please take a moment to read the instructions on screen.
When you are ready, click the Start Assessment button to proceed.

These 10 questions should be randomly selected from the 15 questions every time a user takes the assessment.

