UNITED NATIONS DEVELOPMENT PROGRAMME
Office of Audit and Investigations

PERFORMANCE AUDIT

OF

UNDP

RESOURCE MOBILIZATION FUNCTION

Report No. 1750
Issue Date: 30 June 2017

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Report on the Performance Audit of the UNDP Resource Mobilization Function
Executive Summary

The UNDP Office of Audit and Investigations (OAI) conducted a performance audit of the UNDP resource mobilization function from 1 November 2016 to 17 February 2017. Performance auditing is an independent examination of a programme, function, operation, project, or the management systems and procedures of an entity to assess whether the entity is achieving economy, efficiency, and results in the employment of available resources.

Resource mobilization is not a stand-alone exercise and needs to be fully embedded in UNDP's planning and management cycle to be effective. The resource mobilization function is the shared responsibility of all Bureaux and Country Offices.

The audit objective was to assess the performance of the UNDP resource mobilization function, including aspects of governance, risk management and internal control. The audit focused on three main audit questions:

1. Is the UNDP resource mobilization function's governance structure, including roles and responsibilities adequate?
2. Is UNDP sufficiently optimizing opportunities for resource mobilization?
3. Are operational processes, including internal controls adequately designed and implemented for supporting the UNDP resource mobilization function?

The audit covered the resource mobilization activities from 1 January 2015 to 31 December 2016; however, for the completeness of the analysis, tests and reviews, the audit team has included data from January 2014. This was the first audit of this function.

The audit was conducted in conformance with the *International Standards for the Professional Practice of Internal Auditing*.

Overall audit rating

OAI assessed the function as **partially satisfactory/some improvement needed** which means, "The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area."

Key recommendations: Total = **8**, high priority = **2**

The recommendations aim to ensure the following:

Objectives	Recommendation No.	Priority Rating
Achievement of the organization's strategic objectives	1, 5	High
	2, 3, 4, 6	Medium
Effectiveness and efficiency of operations	7, 8	Medium

For high (critical) priority recommendations, prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP. All high (critical) priority recommendations are presented below:

Unclear governance structure with ambiguous roles and responsibilities for resource mobilization (Issue 1)	Within the current highly decentralized structure of UNDP, it is a challenge to identify who is ultimately answerable for achieving the goals of the UNDP resource mobilization function. There was no entity within UNDP that was mandated to enforce decisions on resource mobilization actions, and to play an overall leadership role in this respect. This is negatively impacting the output of the resource mobilization efforts, and affecting the overall governance of the resource mobilization function. The Corporate Accountability Framework shows BERA as the coordinating body for both core and non-core resource mobilization, and at the same time, indicates that all Bureaux are also accountable for resource mobilization results. The Corporate Accountability Framework defines accountability as the ultimate answerable entity for the completion of a function. The audit noted that while BERA may be held accountable for part of the mobilization of resources, it cannot be accountable for the overall effectiveness of the resource mobilization function because firstly, BERA cannot assess the quality of non-core resource mobilized by all Bureaux, and secondly, the decentralized nature of UNDP structure makes it difficult for BERA to challenge decisions made by Regional Bureaux, or Country Offices. As a result, coordinating the various resource mobilization efforts is difficult. Interviews with the various Bureaux as well as with staff involved in the resource mobilization confirmed that there were, in practice, ambiguities regarding the overall accountability of the resource mobilization function. <u>Recommendation 1:</u> The Executive Office, with support from BERA, should review the resource mobilization architecture, to establish greater coordination of resource mobilization efforts across the organization. This should include a review of the corporate resource mobilization priorities, of existing roles and responsibilities for resource mobilization, and of granting the necessary authority to a business unit to coordinate resource mobilization efforts.
Lack of Funding Window-specific marketing strategies negatively impacted the expected resource mobilization targets (Issue 4)	The new Funding Windows have not yet been able to generate the same amount of income for UNDP as the Thematic Trust Funds in the past. To be impactful and cost effective, the Windows need to be sizeable, but there was no pathway that leads to the potential amount of about $500 million in the foreseeable future. This audit notes that the decline in thematic, lightly earmarked funding might not be UNDP specific, as the tendency that donors prefer earmarked contributions over non- and lightly-earmarked funding is a UN- wide persistent trend over a longer period of time. <u>Recommendation 5:</u> The Bureau for External Relations and Advocacy and the Bureau for Policy and Programme Support should jointly develop a resource mobilization strategy and action plan for the new Funding Windows. The plan needs to be costed and supported by clear business rationale, demonstrating why they are likely to be successful and clarify specific resource mobilization roles and responsibilities for each Window.

Management comments and action plan

UNDP management accepted all eight recommendations and is in the process of implementing them. Comments and/or additional information provided have been incorporated in the report, where appropriate.

Issues with less significance (not included in this report) have been discussed directly with management and actions have been initiated to address them.

Helge S. Osttveiten
Director
Office of Audit and Investigations

I. About the resource mobilization function in UNDP

With a revenue of approximately $5 billion and programmes in nearly 170 countries and territories, contributions to UNDP are channelled through any of the following modalities: (i) voluntary contributions to regular resources; (ii) funds intended for specific thematic areas; (iii) UN pooled funding; (iv) funds earmarked to programmes or projects, including domestic resources from programme countries; or (v) funds confined to a single development domain or vertical funds.

The UNDP resource mobilization function has two basic dimensions: (a) mobilizing un-earmarked resources (also named core or regular); and (b) mobilizing lightly earmarked resources and earmarked resources (also named non-core) that are thematic or specifically tied to results to be obtained by the execution of programmes and projects.

- **Mobilizing un-earmarked[1] resources for financing Country Offices, Regional Centres and Headquarters organizational activities**

Un-earmarked resources are needed to cover both the programmatic and institutional components of the integrated budget. The latter includes costs for functions that are vital for high quality development programming. Resources to fund these functions are mainly mobilized from four important sources: (i) integrated budget (regular resources); (ii) application of the General Management Services (GMS) fee on other resources or extrabudgetary resources, (iii) income generated from the provision of support services to United Nations agencies, and (iv) direct project costs that directly contribute to the achievement of development results of projects and programmes and are funded from regular (core) and other (non-core) resources.

Mobilizing core/un-earmarked funding is important to UNDP, as it allows UNDP to formulate and implement its development agenda. Core funding is in line with the principles of development efficiency and effectiveness, and is primarily the responsibility of Headquarters. Regular resources allow UNDP to plan ahead, be strategic and responsive, strengthen accountability, transparency and oversight, advance United Nations coherence and coordination and provide predictable, differentiated services across programme countries, particularly the poorest and most vulnerable.[2]

UNDP calculated[3] that, in order to be most effective and relevant for developing countries, the percentage of non- earmarked and lightly earmarked resources to earmarked resources should be approximately 55 percent to 44 percent for total expenditures of $22.6 billion over the Strategic Plan period (2014-2017), while in the previous Strategic Plan Period (2008-2013), this ratio was about 1 to 4. In addition to this calculation, UNDP stated[4] that the preferred scenario was to have at least 20 percent of its budget in core resources and 10 percent in lightly earmarked resources.

The Bureau for External Relations and Advocacy (BERA) is responsible for leading major efforts and achieving results on mobilizing core funding. For this purpose, BERA communicates with the Organisation for Economic Co-operation and Development (OECD)/Development Assistance Committee (DAC) donors to determine the contributions that would be received on yearly basis. BERA is responsible for partnership strategy and

[1] Also named "regular resources" or "core resources" within UNDP. Apart from these resources UNDP opened thematic Funding Windows; resources captured under these windows can be used wherever needed as long as they are linked to the theme of the window.
[2] Document 'Achieving critical mass for development success", dated 20 August 2014. Submitted to UNDP EB
[3] 'Achieving critical mass for development success' 2015 background paper to the executive board
[4] UNDP presentation to the EB on Funding, Funding Dialogue, EB meeting Sept 2015

coordination, partner relationship management, corporate coordination and resource mobilization, including lightly earmarked thematic funding (Funding Windows, like Trust Funds), while the Bureau for Policy and Programme Support (BPPS) is responsible for managing the Funding Windows. Lightly earmarked funding is tied to a specific goal or objective of UNDP's agenda, but not to specific projects or activities. The financial target for the Funding Windows was set at $20 million for 2016. For 2017, the target is set at $50 million and eventually, this funding vehicle could contribute 10 percent of UNDP's total turnover.[5]

Country Offices are responsible for mobilizing resources at the country level for their Country Programmes, primarily non-core resources, as well as Government Contributions towards Local Office Costs (GLOC), i.e., part of the operating expenses of UNDP's local representation. In its decision 82/18 of 18 June 1982, the UNDP Governing Council recognized that local economic conditions may impact the ability of host Governments to meet their obligation to cover local office costs and it authorized the UNDP Administrator to waive in part the GLOC obligation when economic conditions so warranted. In this regard, a system of waivers based on per capita Gross National Income (GNI) was developed. The waiver system is adjusted during each programme cycle taking into account the relevant base year's GNI, and ranges from 25 to 75 percent.

- **Mobilizing earmarked resources[6] (non-core) for projects execution**

Earmarked resources may come from programme countries, bilateral donors, multilateral donors, foundations, pooled funding in Multi Partner UN Trust-funds, vertical funds, International Financial Institutions (IFIs) and the private sector. Additionally, individuals, by means of crowdfunding actions or other fundraising activities, can contribute to core or non-core. All earmarked contributions to projects are subject to a GMS fee which is charged by UNDP. Project costs ideally include all direct costs involved in the execution of the activity, including costs related to promote development effectiveness.

Mobilizing core and lightly earmarked funding are the preferred funding channels as they provide more flexibility than non-core resources tied to specific programmes and projects.

As UNDP is a decentralized organization, roles and responsibilities for non-core resources mobilization are spread widely over many entities within UNDP, varying from the respective Bureaux at Headquarters, to Regional Hubs, and to Country Offices:

(i) BPPS is responsible for mobilizing resources for global projects. BPPS also mobilizes and /or supports Country Offices to mobilize earmarked funds from Global Fund and other vertical funds (e.g. Montreal Protocol, Global Environment Facility, Green Climate Fund) to support specific activities related to the goals of these funds at a global level.

(ii) Regional Bureaux are responsible for the funding of their regional programmes and projects.[7] The financial targets for resource mobilization at the Regional Bureaux level equals the total budget of the implementation of a regional programme, less the core resources allocated to the programme.

(iii) Country Offices play an important role in mobilizing the resources needed for the implementation of programmes and projects. The financial targets for resource mobilization at the Country Office level equals the total implementation budget of a Country Programme, less the core resources allocated to the programme.

[5] Apart from the initial target and the notion that each window needs to be capitalized with $5 million, there are also no goals and financial milestones but the 10 percent UNDP turnover goal.
[6] Also named "other resources "or "non-core resources" in UNDP.
[7] This responsibility may be delegated to the Regional Hub.

A. Audit objectives

The audit objective was to assess the performance of the UNDP resource mobilization function, including aspects of governance, risk management and internal controls. The audit focused on three audit questions:

(i) Is the UNDP resource mobilization function governance structure, including roles and responsibilities, adequate?
(ii) Is UNDP sufficiently optimizing opportunities for resource mobilization?
(iii) Are operational processes, including internal controls, adequately designed and implemented for supporting the UNDP resource mobilization function?

B. Audit scope and approach

The scope of this audit included UNDP's relevant activities undertaken during the period 2014-2016, which comprised the Strategic Plan 2014-2017, with an emphasis on the initiatives taken within the framework of the Resource Mobilization Action Plan (RMAP). The RMAP aims:

(a) to protect and increase the un-earmarked core funding of UNDP;
(b) to increase the quality of non-core funding; and
(c) to diversify UNDP's funding base across and beyond governments.

This audit focused on three areas that that are of importance to the successful completion of the function:

- the adequacy of UNDP's business model, including its resource mobilization strategy and funding model;
- the effectiveness of the current Resource Mobilization practices and initiatives; and
- the adequacy of operational guidance and practices that have a direct impact on UNDP's capacity to effectively engage with donors and mobilize resources, with emphasis on the cost of this engagement.

The audit approach involved the following steps:

- Interviews with key staff involved with resource mobilization at Headquarters/Regional Bureaux and Country Offices.
- Review of previous audits, evaluations and assessments regarding partnerships and resource mobilization in the United Nations system.
- Review of documentation, including terms of reference/mandates, job descriptions, budgets, meeting minutes, monitoring reports, the partnership survey and work plans.
- Comparison of UNDP resource mobilization practices and standards against those of similar organizations.
- Survey/interview with selected UNDP Country Offices to gain their views on resource mobilization at UNDP with follow-up meetings as required.

The audit did not review the management of donors' resources, including the effectiveness of controls and risk management practices, but focused mainly on the resource mobilization function.

C. Audit Criteria

Audit criteria include policies, procedures and requirements against which facts can be assessed. The main audit criteria for this performance audit include:

- According to the UNDP Strategic Plan 2014-2017 and the Integrated Results and Resources Framework: "This Strategic Plan will, for the first time, show a clear link between development results and the financial and human resource inputs required to deliver them". Also, "UNDP will continue to cooperate with donors and emerging partners through flexible and quality non-core funding channels and instruments. We will aim to optimize the management of non-core funding streams through rationalization of both the number of instruments and the management of them. Recognizing the increasing complexity of development financing, we will assist developing countries, when so requested, to generate, access, combine, sequence and manage the finance they need to progress towards sustainable human development. UNDP is implementing the Executive Board decision to harmonize cost classifications and implement new cost recovery rates. This will improve the transparency and consistency of development project costing, thereby addressing a long-standing concern that core resources may have been unduly subsidising non-core activities."

- Best practices in resource mobilization and recommendations of other audits and evaluations, including Quadrennial Comprehensive Policy Review (QCPR) and Joint Inspection Unit (JIU) reports.

- The UNDP RMAP 2016-2017, which will be used to assess progress against key planned activities.

- The Terms of Reference of the Bureaux will be used to assess the development of key performance indicators as well as to form a view on the clarity of roles and responsibilities.

- The Corporate Accountability Framework.

- The 'UNDP Programme and Operations Policies and Procedures', including the following sections:
  - Guidance and principles for managing partnerships
  - Financial Resources Management
  - Programme and Project management

- The Executive Board Decisions on resource mobilization and predictability.

- The 2014 JIU Report (JIU/REP/2014/1) on "An analysis of the resource mobilization function within the United Nations system", including the following recommendations:

  - The executive heads of the United Nations system organizations should put in place clearly identifiable structures and arrangements, as applicable, with primary responsibility for resource mobilization, for the systematic implementation and coordination of the resource mobilization strategy/policy, monitoring and regular updates (Recommendation 3).
  - The executive heads of the United Nations system organizations should put in place, if they have not already done so, risk management and due diligence processes for resource mobilization; this should include, inter alia, ensuring that due diligence is not performed by the same individuals responsible for fundraising (Recommendation 4).
  - The executive heads of the United Nations system organizations should organize dialogues with their respective donors to agree upon common reporting requirements which would simplify the reporting process for the respective organizations and satisfy the information needs of the donors with a view to reducing the reporting burden and associated costs (Recommendation 5).

- The 2014 GMM – Tarrytown Outcomes: UNDP senior management commitment under the heading "Building stronger partnerships":

- "We undertake to 'connect the dots' inside our offices by working free of silos using development solutions teams. We will refresh our approach to partnerships, identifying new and emerging partners, and exploring new ways of working with existing partners as well as with each other."

II. Audit results

Satisfactory performance was noted in the organization's capacity to maintain and expand resource mobilization from vertical funds (e.g., the Green Climate Fund, Global Fund, and Global Environment Facility). Also, some Bureaux like the Regional Bureau for Africa (RBA) and Regional Bureau for Asia and the Pacific (RBAP) succeeded in expanding resources from Government Cost-Sharing.

Results of UNDP Resources mobilization and delivery of programme over the past five years is provided in table 1 below, and show that UNDP has been able to a large extent to maintain the same volume of resources mobilized from 2012-2016, with a slight increase in resources mobilized in 2016 compared to 2012.

Table 1 – Resources Mobilization

DESCRIPTION	2012	2013	2014	2015	2016
Resources mobilization					
Resources - Core (billion $)*	0.85	0.90	0.79	0.70	0.62
Resources Non-core (billion $)*	3.98	3.94	3.92	3.78	4.25
Total (billion $)*	**4.83**	**4.84**	**4.71**	**4.48**	**4.87**
Expenditures					
Programme (billion $)**	**4.23**	**4.23**	**4.30**	**4.17**	**3.83**

Source: (*) For Resources mobilized: BERA RM Dashboard. (**) For Programme expenditures, source: www.open.undp.org

The list of top donors to UNDP core resources for 2016 was as follows:

Table 2 – Top UNDP Donors

DONOR	CONTRIBUTIONS	Percentage
United States of America	83,062,475	13%
Sweden	71,899,075	12%
United Kingdom	68,750,000	11%
Norway	64,222,164	10%
Japan	59,949,999	10%
Switzerland	57,171,515	9%
Canada	31,847,134	5%
Netherlands	31,746,032	5%
Denmark	30,322,809	5%
Germany	27,692,076	4%
Other countries/donors	91,988,023	15%
Total	**618,651,302**	

Source: BERA RM Power BI

UNDP has also been successful in mobilizing non-core resources from 2015-2016, as shown in table 3, which reflects where resources have been allocated (in $ million).

Table 3 – Allocation of Resources

Bureau	2015	2016	% increase
RBEC	302	380.2	26%
RBAP	858.7	1,024	19%
RBAS	584.7	820.9	40%
RBLAC	668.5	523.7	-22%
RBA	665.6	760.5	14%
Global (includes core, vertical funds, among others)	1,351.2	1,175.5	-13%
Total	**4,431**	**4,685.3**	**64%**

Source: BERA RM Power Bi

The top donors to UNDP non-core resources in 2016 are listed in table 4, which includes resources mobilized from vertical funds, EU, and other partners.

Table 4 – Top UNDP Non-Core Resources Donors

DONOR	CONTRIBUTIONS	Percentage
Global Environment Facility	439,470,654	10%
Global Fund	396,434,148	9%
Multi Partner Trust Funds	350,600,622	8%
European Union	336,973,425	8%
Japan	322,562,043	8%
Germany	231,068,162	5%
United States of America	228,897,690	5%
United Kingdom	162,765,545	4%
Argentina	150,529,620	4%
UN Agencies	100,180,772	2%
Ukraine	78,164,944	2%
Sweden	75,871,199	2%
Philippines	71,743,200	2%
Netherlands	70,463,713	2%
Norway	64,509,096	2%
Other donors	1,167,116,556	27%
Total	**4,247,351,389**	

Source: BERA RM Power BI

However, UNDP is facing continuous challenges, such as the decline in core resources, the absence of a clear model to maintain its financial sustainability, and the ability to increase programmes/projects delivery:

- Core resources are the pillar of UNDP's support to the world's poorest countries and are necessary to cover the programmatic and institutional components of its integrated budget. The latter includes costs for functions that are vital for high quality development programming. UNDP senior management indicated that "in case, the Board decided to reduce the core resources used for management by $100 million, UNDP would have to raise between $1.25 billion (8 percent GMS) and $2.5 billion (4 percent GMS) in third-party cost sharing resources, to compensate the $100 million reduction." In the last three years, the actual

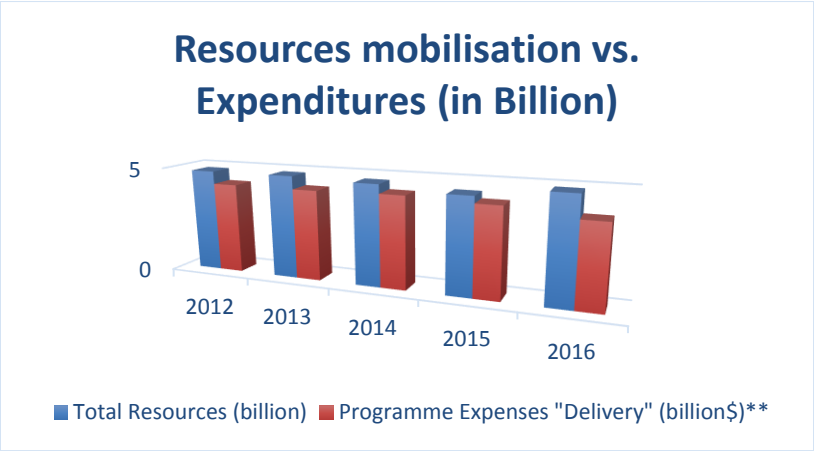
effective cost-recovery[8] rate increased from 6.1 percent in 2014 to 6.3 percent in 2015 and to 6.4 percent in 2016. The effective rate was lower than the approved 8 percent rate, given the approved differentiated rates, waivers and legacy rates. Therefore, the audit calculated that for every $1 drop in core resources, UNDP may need to spend at least $15.62 in non-core resources to generate the same level of core resources. Thus, though UNDP has been able to maintain its resource mobilization targets, the decline in the proportion of core funding may negatively impact the organization's ability to fulfil its mandate.

- The financial sustainability of UNDP would need to be considered as part of the organization's plan to review its business model, which requires an answer to the following questions:
    - What is the impact of the UN Reform agenda on the funding of UNDP?
    - What is the incentive model to be developed to ensure that all units contribute to the financial sustainability of the organization, rather than the unit-level survival?
    - What are the longer-term consequences of less donor funding versus Government Cost-Sharing and UNDP's role in Middle Income Countries? Is the current rate for GMS cost recovery sufficient for covering UNDP's critical mass or optimal organizational structure?
    - What are the longer-term consequences of a continuing decline of voluntary contributions? How will UNDP compensate for this declining resource base through other earning models? In what kind of activities, at what minimum scale and with which partners should UNDP engage in the future to reduce transactional cost and gain sufficient GMS to cover its costs?

- At the time of this audit, UNDP was reassessing components of its business model and preparing its next Strategic Plan (2018-2021). The audit reviewed some draft documentation on this subject. UNDP has not yet included contents on how it intends to sustainably generate its future income, and has not completed the description of its business model to lay a proper foundation for a resource mobilization strategy

- As shown in the in the chart below programme expenditure (delivery) has declined from $4.23 billion in 2012 to $3.83 billion in 2016, which is constraining the ability of the organization to generate its GMS income. Part of this is reflecting multiyear programme cycles, where delivery of the full budget within a year cannot be expected. OAI does not raise a recommendation in respect of this issue since the Board of Auditors recommended to UNDP to continuously consult government counterparts and implementing partners to set realistic and attainable project activities and budgets so as to: (i) expedite projects budget implementation; and (ii) timely monitor and take actions on the progress of projects implementation to minimize implementation delays.

[8] EB DP/2017/16 "Cumulative review of the integrated budget, 2014-2017"



OAI made two recommendations ranked high (critical) and six recommendations ranked medium (important) priority.

Low priority issues/recommendations were discussed directly and agreed with the Bureau and are not included in this report.

High priority recommendations, arranged per significance:

(a) The Executive Office, with support from BERA, should review the resource mobilization architecture, to establish greater coordination of resource mobilization efforts across the organization. This should include a review of the corporate resource mobilization priorities, of existing roles and responsibilities for resource mobilization, and of granting the necessary authority to a business unit to coordinate resource mobilization effort (Recommendation 1).

(b) The Bureau for External Relations and Advocacy and the Bureau for Policy and Programme Support should jointly develop a resource mobilization strategy and action plan for the new Funding Windows. These plans need to be fully costed and supported by clear business rationale, demonstrating why they are likely to be successful and clearly specify resource mobilization roles and responsibilities for each Window (Recommendation 5).

Medium priority recommendations, arranged according to significance:

(a) The Bureau for External Relations and Advocacy should update the 'UNDP Programme and Operations Policies and Procedures' to provide better guidance to Bureaux regarding resource mobilization, including determination of resource mobilization targets and responsibilities of Bureaux and Country Offices for resource mobilization, including through the use of the UNDP corporate planning system (Recommendation 2).

(b) The Bureau for External Relations and Advocacy should develop policies and guidance for engaging in new financing mechanisms and opportunities, including the private sector, crowdfunding and bidding for Call for Tenders (Recommendation 6).

(c) The Bureau for External Relations and Advocacy should ensure that the guidance in the Resource Mobilization Toolkit on how to compose a country specific resource mobilization strategy and action

plan becomes mandatory, including the role of the Regional Bureaux in quality assuring the action plans. While allowing Country Offices flexibility to adapt to local context, the mandatory guidance should be incorporated in the 'UNDP Programme and Operations Policies and Procedures' (Recommendation 3).

(d) To enhance the activities targeted at protecting and expanding UNDP's donor base for un-earmarked core contributions, the Bureau for External Relations and Advocacy and Regional Bureaux should consider developing engagement plans for select countries from both DAC and non-DAC, respectively. These plans should be built around the identified comparative advantages of UNDP and tailor them around the decision-making processes in the selected country. Corporate capacity should be aligned to the identified priorities. Wherever possible, UNDP Representation Offices should be included in these plans, clearly stating their role and responsibility (Recommendation 4).

(e) The Bureau for External Relations and Advocacy should develop guidance to support Country Offices during the negotiation of funding agreements, and update the 'UNDP Programme and Operations Policies and Procedures' to ensure that the implementation of the funding agreement starts after the agreement signature date (Recommendation 7).

(f) The Bureau for External Relations and Advocacy in coordination with the Legal Office should reduce the number of non-standard cost-sharing agreements by: (a)updating and agreeing with donors on the cost-sharing agreement templates with the most common deviations, which are in the interest of UNDP; (b) using its best efforts to reach agreements on templates with World Bank, USAID, and KfW; (c) designing a template for no-cost extension and other amendments that do not entail a financial contribution; and (d) updating and communicating the list of negotiable and non-negotiable items (Recommendation 8).

The detailed assessment is presented below, per audit area:

A. Is the UNDP resource mobilization function's governance structure, including roles and responsibilities, adequate?

Issue 1 Unclear governance structure with ambiguous roles and responsibilities for resource mobilization

'UNDP Financial Regulations and Rules' stipulate under Regulation 5.01 that the (a) the Administrator is responsible for mobilizing effectively and efficiently UNDP resources in furtherance of the mandate and activities of UNDP; and (b) the Administrator may delegate authority, as appropriate, for the mobilization of resources. These delegated roles and responsibilities should be clearly articulated and incorporated in job descriptions and staff performance assessments, both at the Headquarters and at the Country Office level.

The audit assessed whether the governance structure, including roles and responsibilities for resource mobilization and coordination were clearly anchored and understood within UNDP. The audit examined the Corporate Accountability Framework, the 2014 Terms of Reference for BERA, the Integrated Work Plans (IWPs) of relevant Bureaux and a sample of approximately 25 percent of the Country Office IWPs. The audit also reviewed relevant 'UNDP Programme and Operations Policies and Procedures' on resource mobilization and management, and generic job-descriptions including roles and responsibilities. In addition, the audit reviewed a sample of approximately 25 percent of all Country Office specific resource mobilization strategies/action plans, as they are required to include an overview of roles and responsibilities. Finally, the team conducted interviews with the relevant Bureaux and sent questions through email to gather additional information and evidence.

A clear division of roles and responsibilities helps to avoid piecemeal efforts and creates a sense of ownership and accountability, thus leading to better planned and executed activities, and helps in allocating resources where they are most needed, and ultimately, a successful resources mobilization function.

(a) Overall Corporate accountability

Within the current highly decentralized structure of UNDP, it is hard to identify who is ultimately answerable for achieving the goals of the UNDP resource mobilization function. There was no entity within UNDP that was mandated to enforce decisions on resource mobilization actions, and to play an overall leadership role in this respect. This is negatively impacting the output of the resource mobilization efforts, and affecting the overall governance of the resource mobilization function.

The Corporate Accountability Framework specifies responsibilities and accountabilities at the Headquarters level. Per the Corporate Accountability Framework, BERA, the Regional Bureaux, BPPS, the Executive Group, and the Bureau for Management Services (BMS) all have a predominant role to play in setting and meeting the targets, with specific accountabilities and responsibilities set. BERA: (i) develops and updates the corporate partnership strategy (subject to Executive Group approval), including the criteria/categories of partnerships and the resource mobilization strategy; (ii) conducts analysis of potential and existing partners and provides quality assurance on corporate performance/results reporting on partners. BERA also maintains corporate oversight of global/high risk partnerships; (iii) accountable for the coordination of resource projection/ forecasting, as well as the mobilization efforts.

Regional Bureaux: (i) Bureaux are responsible for implementing the corporate partnership strategy (subject to Executive Group approval) and day-to-day relationship management of the partners with which they interact. (ii) Implement the resource mobilization efforts, including with the Country Offices.

BPPS: The Bureau supports advocacy around UNDP's development policy/programming priorities to influence public policy and resource allocation decisions; works closely with UNDP's Crisis Response Unit (CRU); provides technical advice to Country Offices; and advocates UNDP corporate messages internally. The Bureau is responsible for implementing the corporate partnership strategy (subject to Executive Group approval) and day to day relationship management of the partners with which they interact; (ii) implement the resource mobilization efforts, including, supporting resources mobilization efforts for the vertical funds (Global Environment Facility, Global Fund, Green Climate Fund). The BPPS was also designated the Fund Manager for the UNDP Funding Windows that were established in March 2016.

Executive Group: (i) Approves the corporate partnership strategy created by BERA. (ii) Allocation decisions are taken by the Executive Board – for Thematic Funds, the relevant governance body/fund manager will manage and make allocation decisions, with BMS providing reports on financial delivery/utilization to the Executive Group. This excludes trust funds managed by Country Offices.

BMS: (i) Advises on the financial and legal aspects of partnerships. (ii) Accountable for the transactional, accounting and donor reporting side of fund administration. This is done through consultation with the Bureau. BMS is the Fund Administrator for the Funding Windows.

The Corporate Accountability Framework shows BERA as the coordinating body for both core and non-core resources mobilization, and at the same time, indicates that all Bureaux are also accountable for resource mobilization results. The Corporate Accountability Framework defines accountability as the ultimate answerable entity for the completion of a function.

There was no entity within UNDP that was mandated to enforce decisions on resource mobilization actions, and to play an overall leadership role in this respect. This was negatively impacting the output of the resource mobilization efforts, and affecting the overall governance of the resource mobilization function.

The audit noted that while BERA may be held accountable for part of the mobilization of resources, it cannot be accountable for the overall effectiveness of the resource mobilization function because firstly, BERA cannot assess the quality of non-core resource mobilized by all Bureaux, and secondly, the decentralized nature of the UNDP structure makes it difficult for BERA to challenge decisions made by Regional Bureaux, or Country Offices. As a result, coordinating the various resources mobilization efforts is difficult.

Interviews with the various Bureaux (BERA, BPPS, BMS, RBA, Regional Bureau for Arab States (RBAS), RBAP, Representation Offices) as well as with staff involved in the resource mobilization (Partnership Specialists in the Regional Hubs) confirmed that there were, in practice, ambiguities regarding the overall accountability of the resource mobilization function:

- Interviews revealed that donors sometimes received UNDP representatives from Bureaux (Resident Representatives and other staff from the Central Bureaux) and BERA in the same period, which was assessed as negatively impacting the results of these contacts.

- It was unclear which entity was answerable for the quality of resource planning processes and forecasting targets. During interviews with key staff involved in resource mobilization, no staff member could identify who, or which entity, was ultimately responsible for this crucial process. For example: when asked how it was determined if the financial goals for the Strategic Plan 2014-2017 were attainable and based on a realistic forecasting model, no clear answers could be provided.

- It was not clear which entity was responsible and answerable for setting financial targets for regular contributions from DAC countries. For example, BERA and most of the Regional Bureaux expressed conflicting views on responsibilities, target setting and strategic approach. While BERA was answerable for the corporate coordination in this respect, it was not in the position to set financial targets or play a corporate oversight role in this respect.

- The approval process of any cost-sharing/financing agreement is highly decentralized, with the Country Office/Regional Bureau identifying donors and negotiating preliminary agreements almost independently of Headquarters support. While there is some centralized review of the agreement prior to final approval, the only Headquarters clearance required is clearance by BMS (through legal and finance support functions), in case of deviations.

- Donors re not managed in an integrated way: With donors managed mainly on a regional and country level and in a decentralized way, there was a potential conflict regarding where a donor should provide funding for an initiative (i.e. country, region, global, thematic, priority area). Thus, there was a risk of funding areas/activities which may not be a priority for the organization corporately. Furthermore, ensuring that projects are funded at a country level fit into the plan and performance of the Regional Bureau rather than UNDP corporately.

- Maintaining an appropriate degree of standardization of policies and procedures is challenging in light of the sheer number of points of contact with donors. Also, offices within UNDP may compete for the same donor's resources. Competition may also be at the Headquarters level where Central Bureaux may be approaching donors for their own regional and global programmes/projects.

(b) Accountability of Regional Bureaux and Country Offices

The audit reviewed whether roles and responsibilities at the operational level in Bureaux and the Country Offices were clearly defined since about 80 percent of all UNDP resources[9] were mobilized for earmarked development activities in the field.[10]

A review of the 2016 IWPs of Regional Bureaux showed that only one out of the five Regional Bureaux articulated the various roles and responsibilities. Three other Bureaux included resource mobilization in their IWPs, but were not clear on how roles and responsibilities were divided internally. One Bureau had no content on resource mobilization, indicating that roles and responsibilities for resource mobilization within the Bureau are yet to be more articulated.

Roles and responsibilities were also most times not explicitly clear at the Country Office level. A sample of 25 percent of the Country Office IWP[11] showed that only about 10 percent of all Country Offices specified roles and responsibilities for the resource mobilization function in their respective IWPs, and only 16 percent of Country Offices RMAPs in the sample reviewed had a clear text identifying responsibilities for engaging with donors.[12]

The audit also reviewed the relevant 'UNDP Programme and Operations Policies and Procedures'[13] on resource mobilization and management. Although there were reforms in the pipeline, at present the policies pay little attention to resource mobilization planning and do not specify roles and responsibilities.

Without well-articulated roles and responsibilities, there was a risk that UNDP's efforts to achieve the targets of the RMAP may not be successful.

Priority High (Critical)
Recommendation 1: The Executive Office, with support from BERA, should review the resource mobilization architecture, to establish greater coordination of resource mobilization efforts across the organization. This should include a review of the corporate resource mobilization priorities, of existing roles and responsibilities for resource mobilization, and of granting the necessary authority to a business unit to coordinate resource mobilization efforts.
Management action plan: The Executive Office will coordinate with BERA and all other Bureaux to review the resource mobilization component of the Corporate Accountability Framework to ensure clarity of roles, responsibilities and authorities, as well as coherence in their implementation. **Estimated completion date:** December 2017

[9] UNDP used various terms for un-earmarked (regular contributions or core-funding) and earmarked funding (other resources, non-core resources)
[10] UNDP informal structured dialogue with the EB September 2016
[11] The sample contained 32 Country Office IWPs and RMAPs, based on random selection per Region. Shared drive/field work/ analyses/ Assessment of Country Office plans per region. Findings, conclusions, recommendations
[12] BERA Toolkit, guidance on RMAP.
[13] PPM on programme and project management, including the 2016 UNDAF guidance.

Priority	Medium (Important)
Recommendation 2: The Bureau for External Relations and Advocacy should update the 'UNDP Programme and Operations Policies and Procedures' to provide better guidance to Bureaux regarding resource mobilization, including determination of resource mobilization targets and responsibilities of Bureaux and Country Offices through the UNDP corporate planning system.	
Management action plan: Over the course of the re-write of the Programme and Project Management (PPM) chapter that began in Q4 of 2016, the cross-Bureau PPM Reference Group has spent a considerable amount of time on resource mobilization. This includes formulation and appraisal of programmes and projects that require resource mobilization to achieve planned results. BERA and BPPS, working with the Reference Group will make tangible proposals to reform PPM content and programing quality standards which are expected to strengthen resource mobilization. The draft content will be peer-reviewed over the course of Q2+Q3 with view to its finalization in Q4 2017. Organizational Performance Group endorsement expected in Q1 2018. **Estimated completion date:** March 2018	

Issue 2 <u>There is a need to enhance Country Offices' resource mobilization strategies</u>

Adequate resource mobilization strategies and action plans are not only important in determining whether countries are likely to be able to deliver on their projected Country Programmes, but also for the adequacy of corporate resource planning. In 2015, the Board of Auditors recommended that County Offices prepare resource mobilization strategies and operational plans that include yearly resource targets. Audits of UNDP and other United Nations entities recommended developing, at a minimum, a country specific Resource Mobilization Action Plan. BERA developed guidance on the minimum requirements for country specific resource mobilization plans, including content on how to formulate important strategic dimensions and work processes. Country Offices were asked to update or complete their basic strategy and activity planning in the early fall of 2016. Country Offices were advised to draw on the guidelines in UNDP's Resource Mobilization Toolkit; no template was required of Country Offices. In the last quarter of 2016, BERA assessed the quality of 110 resource mobilization plans, across all regions, in terms of basic content, structure and donor targeting.

The current audit reviewed the results of BERA's quality assurance by testing a random sample of Country Office resource planning against the presence of quality elements as set out in the BERA guidance.[14] The audit verified the deficiencies identified by BERA. Based on the review of 110 out of 131 action plans, across all regions, in terms of basic content, structure and donor targeting, BERA concluded that the quality of these plans varied widely between regions and countries. RBAS Country Offices were closest in adhering to the corporate Resource Mobilization Toolkit guidelines, and RBLAC most remote. This could be partly explained by the fact that the Regional Bureaux that were overseeing the process gave different instructions to the Country Offices under their

[14] Resource Mobilization Toolkit

purview. There was no mandatory standard template guiding the resource mobilization planning exercise, which might explain the differences noted in quality and content.

The plans reviewed included a number of notable ideas and efforts with regard to partnerships and resource mobilization, including fees for services; extending efforts to promote Government Cost-Sharing with subnational partners, including municipalities; exploring public fundraising, including from diaspora populations; and collaborating with IFIs on multiple fronts beyond loan implementation, such as building on cooperation with the European Investment Bank to leverage additional funding from other important new sources like the Green Climate Fund. These can be exploited and shared as a good practice going forward. However, the audit noted that the resource mobilization plans generally did not adhere to BERA's guidelines, and did not seem to have the potential to effectively enhance Country Offices' resource mobilization capacity, as they were more aspirational than practical, in terms of what donor to approach, why, and what was the likelihood of mobilizing resources from a specific donor. For many Country Offices, the need to carry out *donor mapping* was listed as a future action in itself, i.e., many plans had not analysed the donor landscape and neither did they provide a clear picture on how UNDP anticipated threats and opportunities, or how UNDP could compete with other actors in the same arena. More specifically, the following were noted in the action plans reviewed:

- *Resource mobilization capacity:* Per BERA, about 55 percent of the action plans indicated an internal capacity assessment, which would provide some assurance that Country Offices had the capacity to deliver on resource mobilization goals or were planning to acquire such skills.
- *Positioning of UNDP in the market:* Per BERA, about 76 percent of all documents refer to an analysis of the external funding landscape. Only 19 percent of the sample made full reference in this respect, while 34 percent made some reference. Additionally, the audit examined whether the plans made specific reference to UNDP's comparative advantage in the Country's context, and noted that 53 percent of all of them made full reference, while 31 percent made some reference.
- *Engagement rationale*: Country Offices were not able to fully develop donor specific action plans that build on an engagement rationale explaining why it was likely that a partnership can only be established based on comparative advantage and position in the funding landscape. None of assessed action plans provided full reference to this issue, 50 percent made a partial reference to the subject, and 50 percent had no reference at all.
- *Clear line of action:* In BERA's assessment, only 29 percent of all action plans were found to be action oriented, that is, including explicit, time-bound actions for Country Office colleagues to undertake.

Without having thoroughly assessed Country Offices' capacity to effectively play their role in the resource mobilization process, the risk exists that targets cannot be met because of insufficient human and financial resources.

Priority	Medium (Important)
Recommendation 3: The Bureau for External Relations and Advocacy should ensure that the guidance in the Resource Mobilization Toolkit on how to compose a country specific resource mobilization strategy and action plan becomes mandatory, including the role of the Regional Bureaux in quality assuring the action plans. While allowing Country Offices flexibility to adapt to local context, the mandatory guidance should be incorporated in the 'UNDP Programme and Operations Policies and Procedures'.	

Management action plan:

BERA will provide guidance as to how a Resource Mobilization Action Plan should be developed, with flexibility for Country Offices to tailor action plans to local context – while Regional Bureaux will continue to oversee Country Offices' performance and compliance.

Estimated completion date: December 2017

B. Is UNDP sufficiently optimizing opportunities for resource mobilization?

Issue 3 Actions to protect core contributions have not yielded the expected results

The 2014 JIU report on resource mobilization recommends that: "UNDP should constantly explore, identify and pursue opportunities; Executive Heads must lead from the front, not leave resource mobilization solely to the resource mobilization teams; research where the decisions are made and deal with that level in the donor's organizational structure; reach out to and cultivate relationships with actual decision-makers and influencers."

To expand its current donor base, BERA has been tasked with a "100 partners for development" campaign, aimed at attracting new government donors. This campaign was launched to ensure stable and predictable regular resources, and was aimed at reaching a target of 100 contributing partners to UNDP's core by 2017. BERA made substantial efforts to communicate with donors by means of analyses, structured dialogues and high-level interventions. Letters to Member States from the Administrator were sent, bilateral high-level meetings, and targeted events were used to make the case for core. Despite the outreach, UNDP was unable to increase the number of core contributors, with only 51 Member States contributing to core in 2015 – requiring a revised engagement strategy in 2016.

The audit noted only two cases of written evidence showing engagement activities/plans (Nordic Region and Japan) which were based on a deeper understanding of the decision-making process in prospective donor countries, and in both cases, the UNDP Representation Offices played an important role in the dialogue/engagement process. No other evidence of effective dialogue/engagement was obtained, although BERA indicated that the Geneva, Brussels and Washington DC Representation Offices were very close to the fundraising constituents and had a deep understanding of the decision-making process.

Engagement plans might also require proximity with the various core donors' capital, and this was not ensured in most cases. While for Nordic countries BERA maintained a physical presence, for donors like Germany, the Netherlands, Australia, United Kingdom, there were no Representation Offices involved and they were being covered from Headquarters. Yet, BERA indicated that not all funding Member States welcome local presences from UN agencies; both the United Kingdom and Germany had indicated that their missions to the UN have the responsibility and capacity to interact with UNDP and their capitals for fundraising and other purposes.

The audit noted the absence of tailor-made engagement plans for non-DAC donors. The non-DAC countries account for 21 percent of UNDP's total funding and is likely to grow. In 2010, the proportion of contributions from the DAC and non-DAC partners to UNDP was 58 percent and 16 percent, respectively. The ratio has since changed to 49 percent and 21 percent in 2016. The projected figure for 2017 shows a further narrowing of the gap, i.e., 44 percent and 22 percent, respectively. However, the audit noted that there was no clear distinction between the strategy for partnering with existing donors, such as India and China, and targeted donors such as Mexico and Indonesia.

In conclusion, the efforts to maintain UNDP's current donor base for un-earmarked contributions did not meet most of the conditions as stated above, and therefore, there is a risk of missed opportunities for UNDP to finance its core functions.

Priority	Medium (Important)
Recommendation 4: To enhance the activities targeted at protecting and expanding UNDP's donor base for un-earmarked core contributions, the Bureau for External Relations and Advocacy and Regional Bureaux should consider developing engagement plans for select countries from both DAC and non-DAC, respectively. These plans should be built around the identified comparative advantages of UNDP and tailor them around the decision-making processes in the selected country. Corporate capacity should be aligned to the identified priorities. Wherever possible, UNDP Representation Offices should be included in these plans, clearly stating their role and responsibility.	
Management action plan: BERA will continue to update and refine its DAC donor action plans, in line with common priorities and based on UNDP's new Strategic Plan 2018-21, and support Regional Bureaux as needed. Regional Bureaux: - The Regional Bureau for Latin America and the Caribbean (RBLAC) will commit to expand core contributions for at least two countries. - The Regional Bureau for Asia and the Pacific (RBAP) will prepare engagement plans for two of its priority countries. - The Regional Bureau for Europe and the Commonwealth of Independent States (RBEC) will continue advocating for core with the Russian Federation and Turkey based on existing Partnership Framework Agreements and will intensify efforts targeting Azerbaijan and Kazakhstan. - The Regional Bureau for Arab States (RBAS) will continue to advocate for core resources in their region. - The Regional Bureau for Africa (RBA) will continue to advocate for core resources in their region. **Estimated completion date:** March 2018	

Issue 4 <u>Lack of Funding Window-specific marketing strategies negatively impacted the expected resource mobilization targets</u>

UNDP established, since 2010, six Thematic Trust Funds (TTFs)[15] to help the organization: (i) align and focus its Global, Regional and Country Programmes around its practice areas, and (ii) allow UNDP's donors an opportunity to demonstrate through thematic contributions their commitment to promoting increased alignment and focus of UNDP programmes.

Following the Structural Change in 2014, all six TTFs were phased out and replaced in 2016 by the Funding Windows aligned with the Strategic Plan 2014-2017. Funds already committed to existing TTFs continued to be

[15] UNDP administered the following TTFs: (1) Democratic Governance, (2) Energy and Environment, (3) Gender for Development, (4) HIV/AIDS, (5) Poverty Reduction, and (6) Crisis Prevention and Recovery.

active during 2016 to enable existing agreements to be fulfilled through their completion. The new Funding Windows aimed at attracting lightly earmarked funding whereas most of the funding to the previous TTFs were earmarked to specific projects. Establishment of the new Funding Windows also responded to Member States requests expressed in the QCPR and UNDP's Executive Board for more predictable, flexible and adequate funding for development.

The audit noted that closing of UNDP's most important TTFs was not well sequenced with the start of the Funding Windows. Although a strategy, work plan and a comprehensive presentation of the Funding Windows were prepared in line with UNDP's Strategic Plan 2014-2017, the formal launch of the new facility only took place in March 2016, well after the closure of the TTFs. BPPS indicated that TTFs were kept open until 1 January 2016 so that they could still receive funding from donors, so technically there was a two-month gap during which donors could not grant thematic funding.

Notwithstanding the existence of a framework of roles and responsibilities for managing the new Funding Windows, units also stated that "the ownership (and the responsibility for adequate funding) of each Window was also not yet fully clear to all involved". Interviews showed that, per specific Window, additional specific action to "market" the Window was found necessary, as at present only a general strategy to place the Funding Windows was in place. Although the long-term goal was that UNDP would generate 10 percent[16] of its future income through the new Funding Windows, there was no specific action plan that could evidence the likelihood of this assumption.

The new Funding Windows have not yet been able to generate the same amount of income for UNDP as the TTFs in the past. To be impactful and cost effective, the Windows need to be sizeable, but there is no pathway that leads to the amount of about $500 million in the foreseeable future. The audit notes that the decline in thematic, lightly earmarked funding, might not be UNDP specific, as the tendency that donors prefer earmarked contributions over non- and lightly- earmarked funding is a UN-wide persistent trend over a longer period of time.

During discussions, BERA indicated that there was a risk that some donors may reduce their core contributions and instead contribute the resources to the Funding Windows. This was considered a wrong substitution because establishing the Funding Windows was aimed to offer donors an opportunity to contribute their earmarked contributions to a lightly/softly earmarked funding mechanism, rather than divert core contributions to lightly earmarked ones.

By closing some TTFs and not offering a quick replacement to the donors, many donors were left without any means of contributing to major thematic areas. In addition, some of the TTFs like, Crisis Prevention and Recovery, were considered as UNDP's flagship in the international community for crisis response. The new Funding Windows were not yet generating the expected income and there was no specific strategy in place to address this situation.

Many Bureaux indicated that the lack of marketing may not be the predominant reason why the Funding Windows have not been capitalized. Having been launched just over a year ago, it might be premature to reach this conclusion. As indicated in the 2017 UN Secretary-General's report on funding, thematic funding as a whole has been decreasing, pointing to external factors and insufficient prioritization by donors for thematic or lightly earmarked funding. However, the audit maintains that the sequencing of events (closing the TTFs and delays in

[16] The May 2016 draft RM strategy for the Funding Windows states that: "The demand based on pipeline development in 2016 will inform the target for 2017, in the context of other RMAP priorities, with a long-term target of 10% of revenue".

the operationalizing of the Funding Windows) along with the absence of clear marketing strategy for the Funding Windows have negatively impacted UNDP's resources mobilization prospects.

Without formulating and implementing a Window-specific funding strategy and action plan, the risk exists that UNDP will lose the opportunity to attract high quality earmarked funding and not meeting longer term resource mobilization goals.

Priority High (Critical)
Recommendation 5: The Bureau for External Relations and Advocacy and the Bureau for Policy and Programme Support should jointly develop a resource mobilization strategy and action plan for the new Funding Windows. The plan needs to be fully costed and supported by clear business rationale, demonstrating why the plan is likely to be successful and clearly specify resource mobilization roles and responsibilities for each Window.
Management action plan: BERA with support from BPPS and the Funding Windows Secretariat (which brings together BPPS, BMS, BERA, CRU and the Regional Bureaux) will continue to update the current resource mobilization strategy for the Funding Windows, in light of the first year experience; and develop a fully costed resource mobilization strategy for 2018 with tailored action plans for each specific Window following the adoption of the new Strategic Plan. **Estimated completion date:** March 2018

Issue 5 Absence of policies for engaging in innovative financing mechanisms

The 'UNDP Financial Regulations and Rules (Regulation 5.01)' state that the Administrator is responsible for mobilizing effectively and efficiently UNDP resources in furtherance of the mandate and activities of UNDP. Establishing the right policies and procedures to ensure efficient resources mobilization is a prerequisite. In the Strategic Plan, UNDP indicated that it will continue to cooperate with donors and emerging partners through flexible and quality non-core funding channels and instruments. UNDP's 2016 priorities as outlined in the RMAP included: (a) accelerate growth and stability of core resources from OECD-DAC; (b) diversify UNDP's offer by packaging /marketing UNDP's products and services (e.g. thematic windows) to current public and private partners for quality non-core resources; (c) diversify UNDP's donor base to mobilize resources, e.g., with IFIs, , the private sector, programme governments; (d) innovate by piloting new services and products utilizing inventive funding instruments.

In this regard, UNDP encouraged offices to explore new funding opportunities, like engaging with the private sector, crowdfunding and bidding for competitive Call for Tenders:

- *Private sector engagement:* The Resource Mobilization Toolkit provides clear guidance on private sector engagement and the 'UNDP Programme and Operations Policies and Procedures' detail the operational conditions to be met. However, these documents do not provide sufficient direction on how to identify and plan private sector participation. The current strategy developed by the Istanbul International Center for Private Sector in Development (under the purview of BPPS) focused on the importance of the private sector and what enabling role UNDP could play in this process. However, the strategies were not tailored to meet

resource mobilization targets or partnerships that aim at burden sharing with the private sector, and there was no specific strategy for identifying and engaging new global partners to support UNDP's lightly and/or earmarked contributions. Although the RMAP 3.0 gives a numeric target of 10 percent more contributions from the private sector, it is not immediately evident whether this target is attainable and realistic. There is also not a specific business case that demonstrates that Private Sector engagement enhances the quality of lightly and/or earmarked funding. Literature review[17] suggests high transaction costs and higher risks, which should be taken into account when developing a business case.

One additional issue that the audit noted was the use of the UNDP name and emblem by the private sector. The guidelines on a principle-based approach to the cooperation between the United Nations and the business sector (2015 version as requested by GA Resolution A/RES/68/234) require that any authorization for the use of the United Nations name and emblem be approved by the Office of Legal Affairs. Therefore, for UNDP to accept that any private sector company uses its name and emblem, the prior approval of the United Nations Office of Legal Affairs is needed.

- *Crowdfunding:* Crowdfunding is the practice of funding a project or venture by raising monetary contributions from many people. While the concept itself focuses on raising money, crowdfunding is not likely to result in significant financial return on investment for many UNDP offices as the necessary requirements – staff time and budget for communications – are comparatively high, especially at the beginning. The audit noted that UNDP has not developed a policy on crowdfunding, but instead relies on a document called 'Guidance for Project Managers', which was prepared by the BPPS/Development Impact Group. This document is supplemented by support provided by BERA and BMS (in relation to the management of contributions). Due to the decentralized nature of UNDP, there is no central repository for all crowdfunding initiatives taking place. There is also no clear rationale as to why UNDP would be considering crowdfunding, and objectives and targets have not been defined. In addition, there is no Atlas (the enterprise resource planning system of UNDP) code or identifier in UNDP for these types of funds and therefore, it is impossible to track and report on them.

- *Bidding for competitive Call for Tenders:* Traditionally, UNDP (and the UN in general) avoided entering competitive bidding for tenders, but in recent history, recognizing that a significant share of Official Development Assistance flows through a competitive process, UNDP began exploring this modality and some Country Offices have already considered bidding for tenders. The audit noted that UNDP did not have content in 'UNDP Programme and Operations Policies and Procedures' on bidding for competitive tenders, but only an *ad interim* Guidance Note issued in mid-2016. BMS and BERA noted that once UNDP understands more broadly these emerging opportunities and challenges, steps will then be taken to develop and formalize policies and procedures. BERA indicated that its role was to ensure and address the demand coming from Country Offices and Regional Bureaux to be able to respond proactively to funding opportunities as they present themselves, including most recently tendering & bidding. Thus, in consultation with corporate and Regional Bureaux, the ad interim Guidance Note was prepared by BMS and BERA to advise Country Offices. Based on the experiences being garnered in the field on tendering and bidding, BERA and BMS would facilitate UNDP's future ability to successfully bid under agreed conditions.

The audit is concerned that the absence of policies and rationale for engaging into these funding mechanisms will only expose UNDP to material risks. These risks may include issues of immunities and privileges, absence of capacity to implement large infrastructure projects and inadequate costing. There is also the risk of reputational damage, as the role of a contractor may not always be in line with UNDP's leadership role.

[17] http://www.oecd.org/dac/effectiveness/47088121.pdf, on engagement of the private sector.

Priority	Medium (Important)
Recommendation 6: The Bureau for External Relations and Advocacy should develop policies and guidance for engaging in new financing mechanisms and opportunities, including the private sector, crowdfunding and bidding for Call for Tenders.	
Management action plan: UNDP is formulating new financial instruments that have been prioritized by the Organizational Performance Group, including the formulation of policies and guidance. These include on-granting instruments (low value grants and performance based grants), endowment funds, revolving funds, guarantees and loans. **Estimated completion date:** December 2017	

C. Are operational processes, including internal controls and risks management adequately designed and implemented to support the UNDP resource mobilization function?

The management of donors' contributions is a complex undertaking that requires considerable care and attention. It entails well-drafted agreements and strict adherence to certain core principles. These principles include (i) compliance with agreed terms and conditions, (ii) proper analysis of the budgeting, funding and spending situation, (iii) compliance with reporting requirements, and (iv) timely closeout of project activities. The 2014 JIU report on resource mobilization states that most donors base their funding decisions on:

- their own assessments of the effectiveness of the organization;
- their ability to serve the donor's policy priorities and interests;
- their results-based management system;
- prospects for policy dialogue with their executive management;
- the organization's strategic plans; and
- accountability and transparency, and related factors.

The report further states that there is a direct link between the results that organizations achieve and the types of funding that they receive. External studies by some major donors have served as wake-up calls for many organizations, encouraging them to undertake serious introspection, improve procedures and practices and make efforts to achieve greater efficiency and effectiveness.

Interaction with donors for mobilizing resources earmarked to projects can be separated into two areas: initiation and management. Donor initiation refers to all aspects of the relationship with the donor prior to an agreement being signed, and includes donor's identification, negotiation, and closure of agreement. Donor management refers to all activities after an agreement is signed and includes handling of donor inquiries, managing reporting and broader management activities. Clearly, donor initiation and management are not two mutually exclusive categories, particularly with donors who make multiple donations over time.

BERA developed a Resource Mobilization Toolkit, which is designed for staff who are responsible for managing partnerships with donors, and are involved in resource mobilization efforts. The purpose of the Toolkit is to assist in strengthening the partnerships and resource mobilization knowledge and capacities of UNDP staff by providing practical tools and guidance which are adaptable to all Country Office scenarios, considering specific

country contexts (e.g. least developed country, net contributor country or a country affected by crisis). It also serves as a tool to aid UNDP staff in better understanding and responding to donor needs, to foster and improve donor relationships.

The 'UNDP Programme and Operations Policies and Procedures' on partnerships provides some guidance on managing partnerships, private sector partnerships, and foundations. This guidance remains limited in scope and usefulness. Under the 'UNDP Programme and Operations Policies and Procedures' financial resources management, detailed guidance is provided on how to manage and record financial contributions.

The audit analysed the various steps in the process for resources mobilization with the aim of identifying efficiency gains and where UNDP can make improvements.

Issue 6 Long and protracted negotiation of funding agreements

Negotiation of cost-sharing agreements involves a complex set of knowledge and skills, as it is essential that appropriate support mechanisms are established in UNDP to process the agreements in a timely manner. Negotiation and signing of cost-sharing agreements is one of the key milestones leading to receipt of financial contributions. This step involves a complex set of knowledge and skills. Any delay would negatively impact the project implementation and achievement of the results agreed with the donors.

The UNDP BERA Resource Mobilization Toolkit provides limited information on how to negotiate a cost-sharing agreement, but rather focuses the Resident Representative's attention to the knowledge required when negotiating an agreement with a partner. It indicates that UNDP must: (i) consider project planning; (ii) consider the financing strategy; and (iii) forge the optimal agreement (i.e., be able to explain to our partners why UNDP requires certain cost recovery rates and the guidelines for agreements).

In a decentralized organization, this guidance, though important, remains insufficient for Country Offices. The audit showed that negotiation and signing of cost-sharing agreements was not optimal and was negatively impacting the timely receipt of contributions. The review of all cost-sharing agreements entered between 2014 and 2016 noted the following:

In 2014 and 2015:

- Only 3.8 percent of the signed agreements in 2015 had the signed date before the start date, and 3.4 percent in 2014.
- 86 percent of the agreements in 2015 were signed after the entry into force, and 90 percent in 2014.
- 10 percent of the agreements in 2015 were signed after the end of implementation period of the agreement, and 6.2 percent in 2014.

In 2016:

- In only 2.9 percent of the cases, the contract/agreement was signed before the start date (or entry into force) of the agreement.
- 59.4 percent of the contracts/agreements were signed after the start date of the agreements and before the end date.
- 12 percent of the contracts/agreements were signed after the end date of the agreement.

The noted that delays expose UNDP to negative consequences regarding project implementation. Firstly, the delay may reduce the window during which the agreement can be implemented. Secondly, it may require Country Offices to submit requests for a no-cost extension, which may further negatively impact donor relations.

One Bureau indicated that as long as there is an understanding between the donor and UNDP that already incurred expenses within the agreed implementation period can be reversed from UNDP to the donor once the funds arrive, then the risk would be mitigated. This is an important consideration for UNDP's immediate crisis response where Country Offices "advance" other funds and later reverse the charges to the donor as soon as the cost-sharing agreement materializes. For such cases, managers should retain an option for signature after the start of implementation as long as appropriate measures are considered by Country Offices to ensure appropriate risk management measures are in place. OAI agrees that there may be exceptional cases, however, the audit observation is addressing all the cost-sharing agreements signed by UNDP in the last three years which point to a serious deficiency.

Priority	Medium (Important)
Recommendation 7: The Bureau for External Relations and Advocacy should develop guidance to support Country Offices during the negotiation of funding agreements, and update the 'UNDP Programme and Operations Policies and Procedures' to ensure that the implementation of the funding agreement starts after the agreement signature date.	
Management action plan: BERA, in coordination with BMS, will develop additional guidance and update the 'UNDP Programme and Operations Policies and Procedures'. **Estimated completion date:** December 2017	

Issue 7 Need for a process to reduce the number of non-standard cost-sharing agreements

A cost-sharing agreement is a modality by which donor governments and other donors (such as foundations or the private sector) contribute funds to individual UNDP programmes and projects. Different standard UNDP agreements apply and must be used depending on the category in which the donor falls, i.e., donor governments; UN agencies; private sector entities, etc. In some cases, UNDP has also concluded Framework Agreements with OECD/DAC countries, with an agreed template for the contributions and donor-specific agreements for receiving contributions to projects and programmes. BERA provided Country Offices with some guidance when negotiating with funding partners and the need to be aware that any change to standard agreements represents a risk to the organization. BERA indicated that only certain deviations from standard templates are acceptable, and that any proposed deviation to agreement templates must be cleared before signature by the Director of the Legal Office.

Between 2014 and 2016, the Legal Office cleared a total of 1,393 agreements for a total contribution of $3.57 billion. The process generally requires the involvement of the Country Office, the Regional Bureau, the Legal Office and the donor. If the deviation is cleared, the agreement is then signed.

The audit noted that although templates have been agreed upon with donors, continuous discussions and amendments were taking place delaying the signing of the cost-sharing agreement, and further delaying the receipt of the contribution and the project implementation. The reasons for these deviations, as communicated by the Legal Office were multiple, as follows:

Table 5 - Top Six Deviations by Category

Deviation by type	Top Donors	Number of agreements
Editorial changes	Switzerland, UK, Sweden, Norway, Germany	193
Amendments	Norway, UK, Australia, Switzerland, Sweden	136
Exchange of Letters	Japan, Coca Cola, Australia, Norway, Turkey	76
USAID template	USAID	70
Balance clause	Switzerland, UK, Sweden, Norway, Denmark	63
Special "intro" at the request of the donor	Colombia, Mexico	59
Grand Total		**597**

The audit showed that UNDP was not actively learning from previously-agreed deviations/waivers. Every office has to go through the same clearance process if it requests a deviation from a standard cost-sharing agreement. If a similar deviation is required from another Country Office to engage with the same donor, the process would have to be repeated again. OAI considers that if a deviation is agreed upon on a regular basis, it would be more efficient to amend the template so that the Country Office does not request the same deviation in the next agreement. The audit review indicated that although Country Offices have submitted requests to include a fraud clause in the agreement with Finland, Sweden, Norway, Denmark, Germany, this deviation is not yet reflected once and for all in the cost-sharing agreement templates. The same applies for the balance clause.

In addition, there was no cost-sharing agreement template for some major donors like USAID (United States), KfW (German Government-owned development bank), and DFATD[18] (Canada) (An agreement with DFATD was concluded at the time of the Audit). These amendments collectively account for contributions of $504 million (15 percent of the total cost-sharing agreements cleared by Legal Office). For the World Bank, and even though a funding template exists, following changes to the World Bank's Procurement Framework and Regulations effective 1 July 2016, UNDP has been negotiating additional financing templates with the World Bank to take advantage of new opportunities that may arise, as a result of these changes.

Finally, UNDP has yet to develop an amendment template when the same agreement is being extended or additional funds received without any change to the other articles of the agreement, thus creating further delays.

Delays in finalizing the non-standard cost-sharing agreements may erode UNDP's credibility vis-à-vis its donors and impacts negatively on project implementation.

[18] UNDP agreed with DFAT on a new standard contribution agreement effective 31 October 2016

Priority	Medium (Important)
Recommendation 8: The Bureau for External Relations and Advocacy in coordination with the Legal Office should reduce the number of non-standard cost-sharing agreements by: (a) updating and agreeing with donors on the cost-sharing agreement templates with the most common deviations, which are in the interest of UNDP; (b) using its best efforts to reach agreements on templates with World Bank, USAID, and KfW; (c) designing a template for no-cost extension and other amendments that do not entail a financial contribution; and (d) updating and communicating the list of negotiable and non-negotiable items.	
Management action plan: BERA: Agrees on (a) and (d). BMS/Legal Office: Feedback required on recommendation (b) and (c): - The Legal Office will maintain its dialogue with KfW and USAID to formalize templates in a similar form to the existing working arrangements. The Legal Office will continue to engage with the World Bank to formalize the additional templates that have been agreed in principle, noting that there is a valid cost-sharing agreement with the World Bank which continues to be used ($300 million in the past 12 months). - The Legal Office will prepare an amendment template for no-cost extensions and other amendments that do not entail an additional financial contribution. **Estimated completion date:** (a) and (d): BERA: December 2017 (b) and (c): BMS/LSO: (b) For KfW and World Bank: September 2017; and for USAID: March 2018; (c) July 2017	

Issue 8 Challenges in reducing un-programmed resources and increasing projects delivery

Managing, monitoring and reporting on the use of resources are crucial to maintaining good relations with a resource partner. It is essential that the programme or project be well managed and effectively delivered, and that results be reported in a timely manner in agreement with the results-based framework.

UNDP's Office of Financial Resources Management maintains corporate reports which highlight the level of resources that are not being programmed as well as the unspent balances. One of the key reports is the 'Accelerating Delivery Report'. The report provides information supporting offices to (a) reduce UNDP's non-core unspent balance of $4 billion in Cost Sharing and Trust Funds, which is a major concern expressed by both key UNDP partners and internal/external auditors and (b) support and assist Country Offices and Projects with largest non-core resources base and with largest potential for growth in accelerating delivery.

Table 6: Summary of Un-programmed TF and CS Resources, in US$ '000

Category	As of 31 Dec 2013	As of 31 Dec 2014	As of 31 Dec 2015	As of 31 Dec 2016
Trust Fund Not Fully Allocated *(distributed)*	105,602	136,306	155,583	117,521
Trust Fund Not Fully Budgeted *(assigned to projects in Atlas)*	112,516	112,895	36,903	349,720
Subtotal for TF	218,118	249,201	192,486	467,242
Cost Sharing Not Fully Budgeted	752,563	584,040	430,344	444,717
Total	**970,680**	**833,241**	**622,830**	**911,959**

Source: UNDP intranet

Between 2011 and 2016, UNDP's level of un-programmed resources decreased from $1.5 billion to $0.9 billion. This decrease was also partly due to the closure of the TTFs and programming of resources.

In addition, programme delivery has been slow over the past years. The UNDP programme delivery decreased from $4.23 billion in 2012 to $3.83 billion end of 2016.

The root-cause of the un-programmed resource levels and the decrease in the programme delivery rate have never been fully addressed. As at 20 January 2017, the level of un-programmed resources amounted to $648 million. Some of the decrease may reflect a multi-year programme cycle, where full delivery of the budget within one year cannot be expected. In a meeting of UNDP senior management in early 2017, some additional reasons were explored but no determination was made as to the validity of these challenges. Among the causes noted were complexities of the operational procedures and the Country Offices' capacity to effectively implement current programmes, particularly in an environment of decreased Country Office budget allocations and re-profiling of staff roles.

The Board of Auditors raised a recommendation on the slow pace encountered in project budget implementation. The Board of Auditors noted similar issues in 2015 during its visit to six Country Offices. The Board acknowledged the challenges facing management, but considered that slow pace of delivery was mainly due to the shortcomings in project monitoring during implementation.

OAI Comment:

OAI is not raising a recommendation since the Board of Auditors who acknowledged UNDP's efforts in dealing with the slow pace of project implementation, had indicated that it would raise a similar recommendation during 2017 because it continued noting projects delivery delays in visited Country Offices during 2016 interim audit. The recommendation issued in the 2017 Management Letter of the Board of Auditors was for UNDP to continuously consult government counterparts and implementing partners to set realistic and attainable project activities and budgets, so as to expedite projects budget implementation; and to timely monitor and take actions on the progress of projects implementation to minimize implementation delays.

Definitions of audit terms - ratings and priorities

A. AUDIT RATINGS

- **Satisfactory** — The assessed governance arrangements, risk management practices and controls were adequately established and functioning well. Issues identified by the audit, if any, are unlikely to affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Some Improvement Needed** — The assessed governance arrangements, risk management practices and controls were generally established and functioning, but need some improvement. Issues identified by the audit do not significantly affect the achievement of the objectives of the audited entity/area.
- **Partially Satisfactory / Major Improvement Needed** — The assessed governance arrangements, risk management practices and controls were established and functioning, but need major improvement. Issues identified by the audit could significantly affect the achievement of the objectives of the audited entity/area.
- **Unsatisfactory** — The assessed governance arrangements, risk management practices and controls were either not adequately established or not functioning well. Issues identified by the audit could seriously compromise the achievement of the objectives of the audited entity/area.

B. PRIORITIES OF AUDIT RECOMMENDATIONS

- **High (Critical)** — Prompt action is required to ensure that UNDP is not exposed to high risks. Failure to take action could result in major negative consequences for UNDP.
- **Medium (Important)** — Action is required to ensure that UNDP is not exposed to risks. Failure to take action could result in negative consequences for UNDP.
- **Low** — Action is desirable and should result in enhanced control or better value for money. Low priority recommendations, if any, are dealt with by the audit team directly with the Office management, either during the exit meeting or through a separate memo subsequent to the fieldwork. Therefore, low priority recommendations are not included in this report.